

Foreword

THIS is the second annual review number of the *SURVEY OF CURRENT BUSINESS*, the first having been published in March 1938. The present issue and that of last March are a part of the series of annual reports published as part I of the *World Economic Review* in the period from 1934 to 1937, inclusive. These annual surveys were designed to present a statement of the outstanding economic developments of the year, with the emphasis on the general trend.

Since timeliness of publication is important, if these reviews are to be of maximum use, the publication date has been advanced considerably by presenting the analyses in the *SURVEY*. This year the annual review number has been advanced one month, and it is hoped that the utility of its contents will thereby be enhanced.

The record presented in these pages is one of recession and recovery, with the downward trend of business in effect as the year 1938 opened being replaced by a vigorous forward movement in the latter half of the year. While economic conditions for the year as a whole were less satisfactory than in 1937, the year did not bring any general deterioration of the economic structure such as characterized the 1929-32 decline. By the end of the year, business activity had advanced above the level of a year earlier with improved prospects as the new year opened contrasting markedly with conditions which prevailed at the beginning of 1937. Furthermore, though the general picture was one of lower activity than in 1937, there were a number of important areas in which progress continued during the year under review.

The annual review number was prepared in the Division of Business Review, but major portions of the contents were contributed by other divisions of the Bureau of Foreign and Domestic Commerce, as well as by other Government agencies whose assistance is gratefully acknowledged. The Division of Economic Research prepared the chapter on Construction and contributed other material as well; the Marketing Research Division prepared the chapter on Domestic Trade; the Transportation Division, the chapter on Transportation and Communication (except the section on Air Transportation); the Finance Division, the chapter on Finance; the Regional Information Division, that section of the chapter on Commodity Prices relating to wholesale prices in foreign countries; and the Trade Agreements Unit, the section on the Reciprocal Trade Agreement Program. The Division of Commercial Laws prepared the Legislative Summary presented as section B of the Appendix. All charts were drawn by the Department's Drafting, Photographic, and Exhibits Division. Among the other Government agencies that contributed material should be mentioned the Social Security Board, the Works Progress Administration, and the Bureau of Agricultural Economics. Other Divisions of the Bureau and other Government agencies also aided by furnishing data, or in reviewing the manuscript before publication.

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FEBRUARY 1939.

Introductory Review

MIDYEAR of 1938 marked a reversal of the downward movement of business activity initiated in 1937, and the latter half of the year was a period of improvement in trade and industry. The decline was arrested or proceeded at a slower rate after the close of 1937 in some major segments of the economy, notably in manufacturing output, but the general trend as indicated by national income payments was downward through May.

While contraction in business volumes extended well into the second quarter, the sensitive indicators of trends signaled a period of rising activity before the middle of the year. Security prices firmed and then advanced; and prices of raw materials which are sensitive to changing business trends turned upward in June. The revival in residential building which had become evident in March was extended and a broad program of enlarged Government expenditures was set in motion. Industry commitments, which had been retarded by the heavy inventories carried over from 1937, again turned upward, with the change becoming apparent first in some of the consumers' goods industries. The foregoing and other developments led to a renewal of confidence in the immediate forward outlook, which was translated into an enlarged flow of business to manufacturers and was reflected in a less hesitant attitude on the part of consumers than was apparent during late 1937 and early 1938.

With the renewed flow of orders, operations in certain industries improved in May, and by June or July revival was experienced over a wide range of industries. Industrial production expanded contraseasonally from June to July and moved sharply upward in the next 4 months. Consumer purchasing power and distribution of commodities also moved forward after July. Construction activity contributed importantly to the expansion of business, and the effects of the changed business outlook and rising incomes were evident in a revival in sales of automobiles and other consumers' durable goods.

Despite the acceleration in the latter half of the year, the average level of business activity in 1938 was lower than in 1937. The changes in the various segments differed widely; and in some important areas there was an extension of the forward movement which, in general, was arrested in 1937. The volume of industrial production was much less than in the preceding year, with the output of nondurable and durable manufactured goods down 9 percent and 40 percent, respectively. Total retail sales for the year, according to preliminary estimates, were reduced about one-eighth from the total of nearly 40 billion dollars in 1937. There were substantial gains in employment in the latter half of the

year, but the average number of persons at work in nonagricultural pursuits, including those self-employed, was roughly 32.2 million during 1938, as compared with the 1937 average of 34.6 million. (See fig. 22.) This decline resulted in an increase in the volume of unemployment, which was heavy throughout the year.

The changes in the major economic series in 1938, compared with 1937 and several earlier years, are shown in section A of the appendix.

Industrial Production Expanded in Latter Half of Year.

Changes in manufacturing operations during the 1937-38 recession and the recovery movement in the latter half of 1938 were marked. The seasonally corrected volume of manufacturing production declined one-third from August 1937 to January 1938. Aggregate output throughout the first half of 1938 remained around the low January rate, although operations in certain of the nondurable industries had begun to improve as early as May. In the recovery movement of the latter half of 1938, manufacturing production, according to the adjusted index of the Board of Governors of the Federal Reserve System, advanced from 74 (1923-25=100) in June to 103 for December, a gain of 40 percent. Production of durable goods increased more than 80 percent between June and the final month of 1938, according to seasonally adjusted data. Notwithstanding the large percentage gain in aggregate output of durable goods, the production rate attained by the end of 1938 was one-fifth below the average for the most active months of 1937. After midyear, larger gains occurred in durable consumers' goods (especially automobiles) than in the output of producers' goods.

For commodities in the nondurable classification, the readjustments in output during the 1937-38 cyclical movement were less marked than in the above-mentioned category—a usual experience. Aggregate production of nondurable goods had declined one-fifth from the average rate in the peak months of 1937 to the 1938 low point. The subsequent recovery raised the seasonally corrected rate of output at the end of 1938 almost to the average for the first 8 months of 1937.

Production of minerals in 1938 followed the same general pattern of change that was evident in manufacturing. The relative stability in demands for domestic heating fuels and gasoline, however, tended to reduce the magnitude of the fluctuations in aggregate output. Output of the mineral products included in the Federal Reserve index was 15 percent smaller in 1938 than in the preceding year.

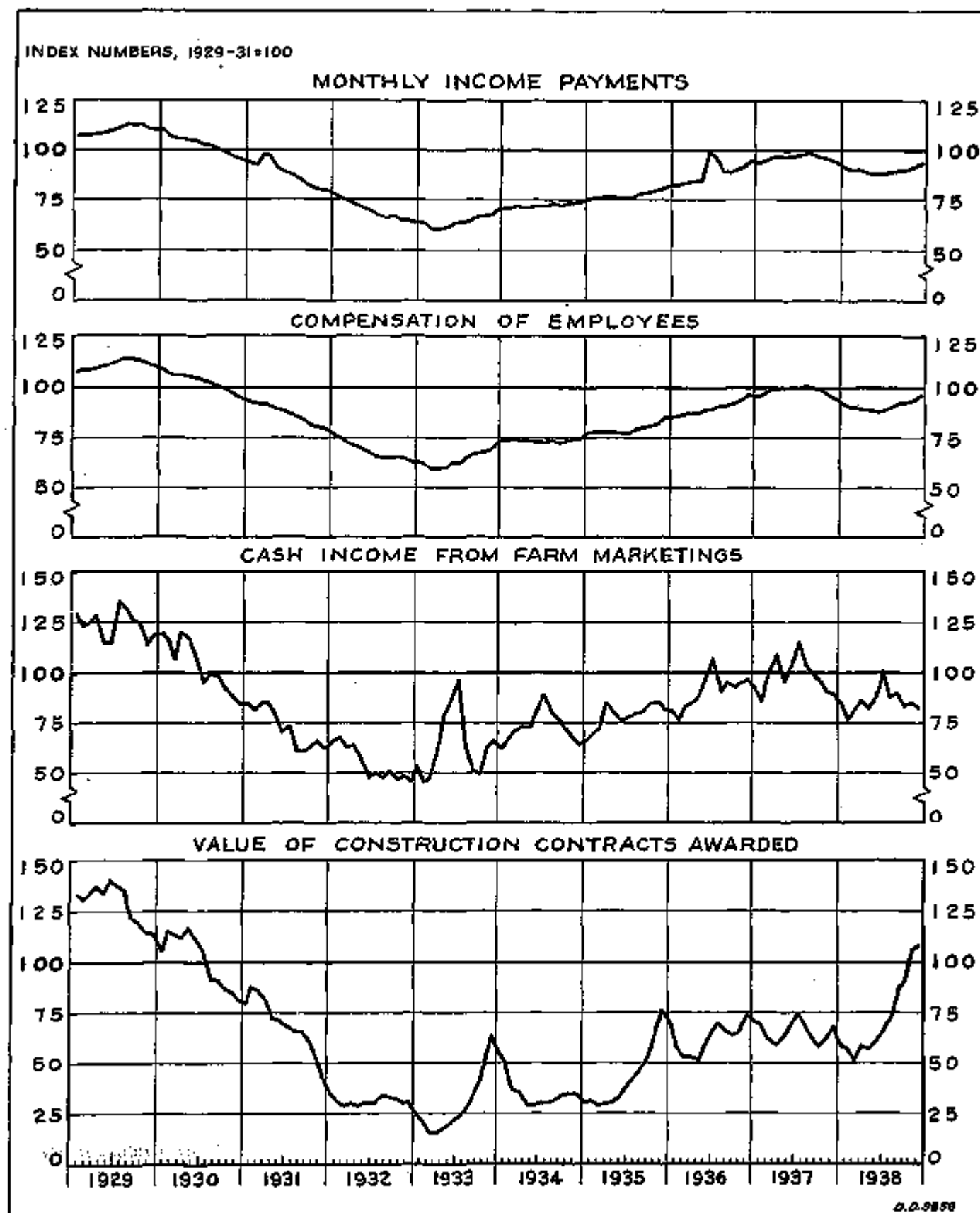


Figure 1.—Movement of Selected Business Indicators, 1929-38.

NOTE.—These indexes, which are adjusted for seasonal variations, have been recomputed on a 1929-31 base from the indexes published by the following sources: Monthly income payments and compensation of employees, U. S. Department of Commerce; cash income from farm marketing (not including governmental payments), U. S. Department of Agriculture; and construction contracts awarded, Board of Governors of the Federal Reserve System.

Distribution Maintained at Rate Above Production.

Retail sales of general merchandise in the early months of the 1937-38 recession declined only moderately, but by the second quarter of 1938 a substantial curtailment was evident. In June, total dollar sales of general merchandise were about one-fifth smaller than a year earlier. Substantial improvement in sales of this type occurred in the latter half of 1938; and by December, dollar sales were slightly larger than a year earlier, though lower than in the peak months of 1937 on a seasonally corrected basis. The seasonally corrected dollar volume of department-store trade averaged 14 percent higher in the last 2 months of the year than at the low point in May. Total dollar sales of general merchandise in 1938 were about 7 percent lower than in the preceding year, but part of this decline was occasioned by lower prices.

Sales of consumers' durable goods declined more promptly and to a greater degree than did general merchandise trade in the 1937-38 recession. During 1936 and much of 1937 the steady upward trend of consumers' incomes had resulted in rising purchases of durable consumers' goods. With the onset of the business recession in 1937, consumers hesitated to undertake commitments for goods whose long life made postponement of purchase relatively easy, and there was a marked reduction in the volume of installment selling. An abrupt drop occurred in the seasonally corrected sales of new passenger cars, for instance, in the final 2 months of 1937, when the 1938 models were introduced at higher prices. In May and June of 1938, the dollar sales of new passenger cars were no more than half as large as a year earlier. Sales of new passenger cars remained relatively depressed until the fall of 1938, when, with the change-over to new models and some price reduction, there were substantial advances; in November and December, sales were larger than in the comparable months of 1937. (See fig. 18.) While sales declines in similar products were not so marked as in automobiles, they followed the same general pattern.

Wholesale trade in 1938 revealed the same tendencies as were evident in retail distribution; the most severe curtailment occurred in durable-goods lines. Dollar sales of "full service and limited function" wholesalers were about one-eighth smaller in 1938 than in 1937. Definite improvement in wholesale trade occurred in the latter months of the year, and by December the Bureau's sample indicated that the dollar volume was larger than a year earlier.

Railway freight traffic increased in the latter half of 1938, after carloadings in the first 6 months had dropped below those in the comparable months of 1932; in this period they were but moderately higher than in the same period of 1933. For the year as a whole, freight traffic was off nearly one-fifth from the 1937 total. By the final months of 1938 the seasonally corrected volume of loadings was about one-fifth higher than in the sec-

ond quarter of the year; however, the maximum number of cars loaded in any one week was 727,000, or more than 100,000 cars below the autumn peaks in 1936 and 1937. Consequently, requirements for additional rolling stock in the fall were not urgent, even though there exists a large potential demand for railway equipment. The difficult financial position of the railroads during the year resulted in a curtailment of new orders for rolling stock; and there was but moderate improvement in the latter part of the year, when the position was alleviated to some extent by the traffic gains.

Capital Outlays Reduced.

Construction of industrial plants and capital-equipment purchases generally showed substantial reductions in 1938 as compared with the preceding year.

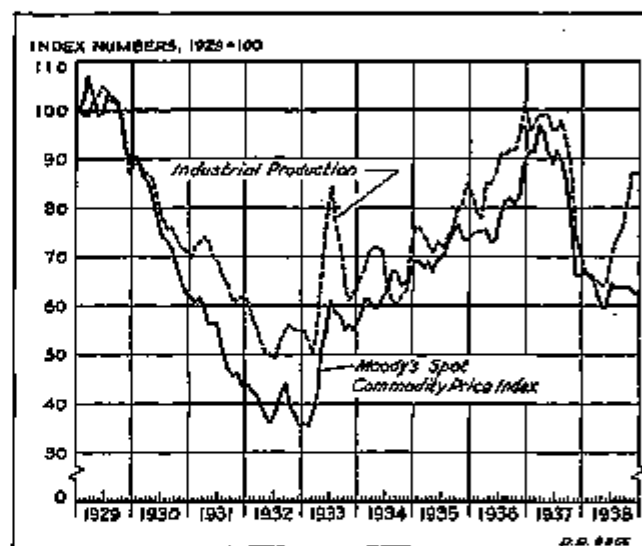


Figure 1.—Index of Industrial Production and Moody's Spot Commodity Price Index, 1929-38.

NOTE.—These indexes have been recomputed on a 1929 base from the indexes published by the following sources: Industrial production, Board of Governors of the Federal Reserve System, adjusted for seasonal variations; and index of spot prices of 15 important commodities, Moody's Investors Service.

Indicative of the trend were the declines in orders for industrial machinery, foundry equipment, and electrical equipment. Capital outlays in the aggregate were much less than in 1937, in which year they were well below the rate attained in the late 1920's. The amount of new capital raised by corporations through publicly announced issues was smaller in 1938 than in the preceding year. (See fig. 33.) Even in 1936 and 1937 the amount of new capital so raised had been relatively small (no more than one-fifth of the average for the years 1926-30), although some of the expansion in capital outlays which actually took place was financed by other means. Construction initiated on new factories and industrial plants fell off as industrial operations slackened after the summer of 1937. The F. W. Dodge data for construction contracts awarded in 37 Eastern States reveal a dollar volume of awards for industrial building much lower than in 1936 or 1937,

and but slightly higher than the dollar figures for 1935. There was no widespread expansion of programs of replacement or additions to production facilities in evidence by the end of 1938. The steel industry had substantially completed its extensive building program for continuous sheet and strip mills by the summer of 1938. In general, the expansion of industrial production in the second half of 1938 did not proceed far enough to tax existing production facilities.

In contrast with the reduced volume of contracts for industrial construction in 1938 was the enlarged volume of awards for private residential building and for publicly financed projects of all types. Contracts for private residential building turned upward after February, reflecting in part the amendments to the Federal Housing Act that liberalized the requirements for insured mortgage loans, especially for lower cost dwellings. After midyear, residential awards were above those in the comparable period of 1937, and in the fourth quarter of the year were larger than in any 3-month period since the spring of 1930. For all of 1938, private residential awards were 6 percent above the 1937 volume. Residential building was the only major type of privately financed construction to record a gain from dollar awards in 1937 and the aggregate of private projects, other than residential, reported by the Dodge organization, was one-third less than in 1937.

Publicly financed contracts in the fourth quarter of 1938 were the largest on record. The extensive program of public works provided for by Congress in the 1938 session was the dominant factor in the unprecedented volume of publicly financed projects, which in the 37 Eastern States surveyed by the F. W. Dodge Corporation totaled 1.7 billion dollars for the year 1938, an increase of 43 percent from the preceding year. The volume of publicly financed housing projects contracted for in 1938, while larger than in 1937, constituted only 5 percent of total publicly financed construction awards, according to these data. Construction activity in 1939, more so than in 1938, will reflect the heavy volume of public projects awarded during the later months of 1938, as weather conditions and the type of the projects affect the rate at which actual operations may be accelerated.

Income Payments Down 7 Percent in 1938.

The trend of monthly income payments was downward in the first 5 months of the year; but with the midyear upturn in business, there was definite improvement. (See fig. 1.) By December, the seasonally adjusted index was 5 percent higher than in June and only 4 percent lower than the 1937 average. On the basis of available data, it is estimated that total income payments in 1938 exceeded 64 billion dollars, a reduction of 7 percent from the recovery high of 69 billion for 1937. Since corporate earnings were much lower

than in 1937 and business units drew heavily on accumulated resources, it is estimated that the national income (income produced) was substantially below income payments in 1938.¹ In 1937, on the contrary, business enterprises in the aggregate effected about a half billion dollars of net savings.

The seasonally adjusted index of income payments fell from 83.5 (1929=100) in January 1938 to 80.4 for May. In June and July the figure was slightly higher, and the sustained upward movement subsequently raised the adjusted index to 84.5 for December. At the end of 1938 this index was almost up to the December 1937 figure, though remaining 6 percent below the August peak for that year. When consideration is given to the lower cost of living at the close of 1938, it appears that consumer purchasing power derived from the current flow of income payments was larger, in terms of commodities and services, at the end of the year than in December 1937, and was not far below that in the peak months of 1937.

Income receipts of wage earners and salaried employees, seasonally corrected, increased 9 percent from June to December, reflecting the employment gains as well as higher earnings of those at work. Over this period the seasonally adjusted volume of factory employment advanced 11 percent, and there were gains also in the number at work in other nonagricultural pursuits. Total compensation of employees for the year, however, was 42.1 billion dollars, a reduction of 3.3 billion, or 7 percent, from the 1937 figure. While payments to employees in 1938 were 42 percent higher than in 1933, they were 18 percent less than the record figure of 51.5 billion dollars for 1929. The cost of living of urban wage earners averaged approximately one-seventh lower in 1938 than in 1929, indicating a moderately lower aggregate real income in 1939 than in this earlier year. However the labor force has increased considerably during this period.

Labor income in the commodity-producing industries (manufacturing, mining, and construction) advanced 18 percent on a seasonally corrected basis from June to December. The adjusted index of employees' compensation in this group of industries had dropped 28 percent during the preceding 10 months. Despite the sustained improvement after June, the December index was about one-sixth below the 1937 peak. For the year as a whole, the income of employees in these industries was 18 percent lower than in 1937. The

¹ Readers of the Survey are familiar with the monthly estimates of income payments to individuals inaugurated last year by the Bureau of Foreign and Domestic Commerce. Income payments are essentially income paid out (national income exclusive of business savings), with certain adjustments designed to afford a better measure of current changes in consumer purchasing power. Direct relief and public-assistance disbursements are included in the monthly series; contributions to the Social Security Reserve funds are deducted from income paid out, and benefit payments from the reserve funds are added. For a description of the series the reader is referred to an article entitled "Revised Estimates of Monthly Income Payments, 1929-38," in the October 1938 Survey of Current Business. For a more extended discussion of the various measures of income, see "Income in the United States, 1929-37," a recent publication of the Bureau of Foreign and Domestic Commerce.

fluctuations in employees' compensation, by major industrial groups, are shown in figure 3.

Other major groups of industries are normally less sensitive to business fluctuations, and changes in payments to employees are smaller. Aggregate salaries and wages in transportation and public utilities increased 9 percent from May to December. For the entire year, labor income in this group was 8 percent below 1937. Pay rolls in transportation were materially reduced, but total compensation of employees of utilities showed little change from 1937.

Pay rolls in the trade and finance group were but 3 percent smaller than in 1937. Aggregate labor income in those sectors of the economy which are grouped as "government, service, and other" was but fractionally lower than in the preceding year. The aggregate of employees' compensation in this group has been relatively stable during the past 2 years.

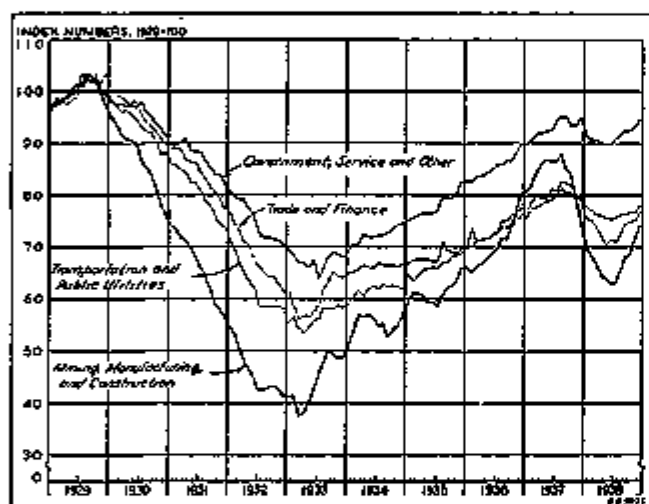


Figure 3.—Indexes of Employees Compensation, by Major Industrial Groups, Adjusted for Seasonal Variations, 1929-38 (U. S. Department of Commerce).

Relief expenditures of all types and the benefit payments under the Social Security Act aggregated 3.8 billion dollars in 1938, an increase of nearly 1 billion over 1937. For the year as a whole, payments of this type constituted nearly 6 percent of the total income receipts of individuals, as compared with 4 percent for 1937 and 5 percent in 1936, the previous high year. Work-relief payments had declined sharply in the second and third quarters of 1937, when W. P. A. rolls were reduced, and were little changed in the fourth quarter of that year from the rate in the third quarter. During 1938, however, there was an increase in work-relief payments from 138 million dollars in January to a high of 209 million for November; in December work-relief payments were moderately lower. Direct-relief payments for the year as a whole were slightly larger than in 1937.

The inauguration of insurance benefits to unemployed workers during 1938 represented a new source of income. Unemployment benefits rose from less than 1 million

dollars in January to a maximum of 47 million dollars in August, and thereafter declined to 26 million dollars in December as a result of improved employment conditions and the exhaustion of wage credits of individual workers. For the entire year, a total of nearly 400 million dollars was paid out in unemployment benefits. However, the operations of the Unemployment Compensation Act resulted in no net increment to consumer purchasing power in 1938, since payments into the reserve fund were at a substantially higher rate; unemployment reserves rose by nearly 450 million dollars during the year. Tax collections under the old-age insurance provisions of the Social Security Act approximated 475 million dollars during 1938, and funds paid out were less than 11 million dollars.

Income payments to property owners in 1938, as compared with 1937, reflected a substantial contraction in the volume of dividend payments and a virtually unchanged flow of interest income. The 25-percent drop in dividend disbursements in 1938 exceeded that for any other type of income payment. Dividend payments dropped after January 1938, reflecting promptly the curtailment in corporate earnings. According to the Standard Statistics seasonally adjusted index for 158 large companies, corporate earnings in the first 9 months of 1938 were lower than in any comparable period of recent years except 1932-33. Corporate earnings improved substantially in the fourth quarter, but the gains did not result in any appreciable expansion of dividend disbursements.

Entrepreneurial withdrawals during 1938 were about 6 percent lower than in 1937, reflecting to some extent the relative stability of rental rates over the past 2 years. On the other hand, the reduction in cash farm income was a factor tending to lower entrepreneurial withdrawals in 1938. Withdrawals from small business enterprises were also materially affected by the reduced sales and earnings as compared with 1937.

Cash farm income, under the influence of lower prices, declined in 1938, though holding up relatively well during a period of industrial recession. Production of important crops was somewhat smaller on the average than the high 1937 yields; and with prices much lower, there was a reduction of 18 percent in receipts from crops. Marketings of livestock and livestock products in the aggregate were slightly larger than in 1937; cash income from this source was reduced less than 9 percent. Government payments to farmers totaled 482 million dollars, as compared with 367 million in 1937. Total cash farm income from marketings and Government payments was estimated by the Department of Agriculture at 7,632 million dollars, a reduction of 11 percent from the 8,575 million dollars reported for 1937.

International Developments.

The succession of European crises culminating in the German demands on Czechoslovakia, with the accom-

panying threats of a general European war, had some influence on the domestic situation, particularly in the field of finance. Security markets were depressed for a time by the trend of European events in September. With the announcement on September 28 of the four-power conference at Munich, security prices recovered. After August, there was a heavy movement of capital funds from European centers into the United States, which augmented the gold flow induced by the large merchandise export balance for the year. The trend of capital and gold movements and foreign exchange fluctuations are discussed in the finance chapter of this issue.

Foreign trade of the United States resulted in the accumulation of an excess of merchandise exports over commodity imports exceeding 1.1 billion dollars during 1938, the largest merchandise balance since 1921. The volume of export trade in 1938 was as large as in 1937, though the value was 8 percent lower. Foreign sales in 1938 afforded substantial aid to two major sectors of the economy upon which stress was placed by domestic changes—agriculture and the industries manufacturing durable goods. The proportion of total production of movable goods which was exported was higher in 1938 than in 1937.

Import trade, reflecting the reduced raw-material requirements of domestic industry, the abundant harvests in this country, lower prices, and other factors, declined 36 percent from the 1937 total value. The changing trends of exports and imports in the latter half of the year tended to reduce, to some extent, the disparity between exports and imports; exports on a seasonally corrected basis tended downward from May through November, though turning upward in December; and imports improved moderately after July, as domestic requirements increased.

Position at End of 1938.

Six months of recovery had by the end of the year resulted in a substantial improvement in general economic conditions from the situation prevailing in the first half of 1938. Most of the major indicators of business activity were at 1938 highs in the final month of the year, though the economy as a whole had not regained the levels of activity reached in the first 8 months of 1937. The December adjusted index of industrial production compiled by the Board of Governors of the Federal Reserve System was 104 (1923-25=100), as compared with the 1938 average of 86. The index of income payments for December was 84.5 (1929=100), and the 1938 average was 81.7. Retail sales of general merchandise, seasonally corrected, were running close to unit volumes in the peak months of 1937.

The inventory situation at the end of the year had undergone a very considerable improvement as compared with the end of 1937. Stocks in some lines were low relative to the volume of sales, though the situation

was not uniform; and stocks of raw materials were, in general, large.

While prices of certain raw materials at the end of the year were above the June lows, there had been no widespread strengthening in the commodity-price structure. However, the price movements in the latter half of the year brought some improvement in price relationships, which had been radically altered by the 1937-38 decline. Finished manufactured goods continued to drift lower throughout the year, while price movements of raw materials and farm products tended to level off after midyear.

The construction industry was a bright spot in the outlook at the year-end, though no widespread improvement in private construction other than residential had appeared. Nevertheless, the heavy volume of public construction placed under contract in the latter half of 1938 and the prospective volume of residential building provides a background for a substantial spring rise in building operations.

In addition to the aid afforded by the program of public works and large-scale housing, the activities of the Federal Government in other fields were furnishing important stimuli to business at the end of 1938. National-defense programs were assuming increasing importance, and the rebuilding of the merchant marine was affording support to the durable-goods industries. The net excess of Federal expenditures was large, and Government funds were an important source of business orders.

Banking resources were unusually high at the end of 1938, and interest rates remained low, but there was no evidence of expansion in business loans outstanding. Commercial loans in December were at the year's low point, and flotations of new capital issues were in relatively small volume. Corporate earnings, however, improved substantially in the last quarter of the year, bringing a favorable factor of considerable importance into the foreground. The declining tendency of the pound sterling in the foreign exchange markets had been checked, although the rate was down from the quotation at the opening of the year.

International uncertainties and acute European tensions at the end of 1938 still constituted a highly uncertain factor in the general outlook. While recovery had slowed at the end of the year following several months of rapid rise, domestic factors gave no indication of near-term deterioration in economic conditions. The brevity of the 1938 recovery movement and the fact that programs initiated had not yet been fully reflected in business volumes gave promise of its continuation, even though the rapidity of the expansion in some directions indicated the probability of irregularity in the forward movement. The uncertainty and doubt prevailing at the end of 1937 had been replaced by a general tone of cautious optimism with regard to the immediate domestic business outlook.

Commodity Prices

THE trend of commodity prices was downward throughout 1938, but in the final half of the year there was a slight lessening of the dispersion resulting from the abrupt fall in prices of industrial raw materials and farm products precipitated in the closing months of 1937. In early summer, prices of raw materials and semimanufactured goods showed signs of strengthening, and prices of a number of staple commodities advanced in June and July. The prices of finished manufactures, however, continued to drift lower throughout the year. At the year-end the composite index of raw-material prices was practically at the early June low, but prices of finished goods were lower than at any time during 1938.

Among the principal price-depressing influences in 1938 were the decline in industrial activity and in consumer income; the heavy supplies of many important farm products, resulting from the record 1937 crops and the above-average harvest of 1938; and the large stocks of many other staple commodities. The expansion in business activity during the second half of 1938, while checking the decline in prices, did not result in any general rise. The need for further inventory readjustments in certain lines, the large volume of idle resources, and the unsettled world political situation tended to prevent any great amount of forward buying, which frequently has been an important price stimulus in the initial stages of expansion in industrial activity. Among other price influences were Government loans on farm products and purchases of surplus commodities, restrictions in production, and quotas of such products as rubber, copper, and tin by international control agencies, and the weakness of the pound sterling.

Wholesale Prices

The general level of wholesale commodity prices fell rather sharply in the first 4½ months of 1938, though the rate of decline was not so rapid as in the last 3 months of 1937. By the middle of May, the Department of Labor index of wholesale prices of 813 commodities stood at 77.8 (1926=100), as compared with 81.0 for the closing week of 1937 and 87.5 for the fourth week in September of that year. Fluctuations of individual commodities during the ensuing months of the year were frequently marked but were largely counterbalancing, with the result that the general wholesale price level was relatively stable. Except for a temporary rise in July, the index moved narrowly around 78 from mid-May until mid-October, and registered only a slight decline during the remainder of the year. The index at 76.9 for the final week in December was around the level of the closing months of 1934.

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While the downward trend in wholesale prices during the first 5 months of the year extended to all principal groups of products except the metals and metal products group, the decline in the general wholesale price level during this period was in the main attributable to decreases in prices of farm products and food-

Wholesale and Other Price Indexes, for Selected Dates

Item	Annual averages				High month 1937	Low month 1938	December 1938
	1929	1933	1937	1938			
WHOLESALE PRICE INDEXES (U. S. DEPARTMENT OF LABOR, 1926=100)							
Combined index, all commodities	96.2	84.6	86.2	78.6	88.0	77.0	77.9
Economic classes:							
Raw materials	97.6	85.1	84.8	72.0	96.1	70.7	70.9
Semimanufactured articles	93.9	80.3	85.2	75.4	80.8	74.1	75.2
Finished products	94.5	79.3	87.2	82.2	89.1	80.2	80.2
Farm products	104.0	88.2	86.4	68.9	94.1	68.8	67.6
Grains	97.4	38.4	68.3	60.0	110.2	30.8	64.4
Livestock and poultry	106.1	48.2	96.6	79.0	106.2	74.4	74.4
Foods	99.0	61.0	85.5	73.6	98.0	72.1	72.1
Meats	109.1	68.2	90.1	83.2	112.4	78.4	79.9
All commodities other than farm products and foods	91.6	70.2	85.3	81.7	86.5	80.3	80.8
Hides and leather products	109.1	72.9	104.6	82.8	108.1	90.1	93.1
Hides and skins	112.7	82.1	112.5	72.0	125.1	62.3	78.8
Textile products	90.4	64.5	76.3	68.7	79.6	65.5	66.8
Fuel and lighting materials	83.0	70.3	77.6	76.6	78.7	73.2	73.2
Metals and metal products	100.5	80.2	95.7	95.7	97.1	94.6	94.6
Iron and steel	94.0	73.4	92.2	95.6	90.9	86.8	93.8
Nonferrous metals	106.1	48.8	89.0	72.8	101.1	67.2	76.8
Building materials	95.4	71.4	95.3	90.3	87.2	89.2	89.4
Chemicals and drugs	94.2	73.5	89.9	77.0	87.8	76.3	76.7
House-furnishing goods	94.3	76.1	89.7	86.5	91.1	85.7	90.0
Miscellaneous	82.6	64.4	77.0	75.3	81.1	72.4	73.1
OTHER PRICE INDEXES							
Cost of living (National Industrial Conference Board, 1923=100)	100.1	77.9	88.0	86.4	89.5	85.0	85.8
Prices received by farmers (U. S. Dept. of Agriculture, Aug. 1900-July 1914=100)	148	95	121	95	131	82	86
Retail foods (U. S. Dept. of Labor 1923-24=100)	104.7	88.3	85.1	70.0	88.5	77.8	78.6
Retail prices of department-store articles (Fairchild index, Jan. 1, 1931=100)	117.5	70.8	95.1	89.7	90.0	88.0	88.2

¹ Based on 813 price series beginning with January 1938, and on 794 for the earlier years.

² A average of 2 months, October and December.

³ Index for both Dec. 1, 1933, and Jan. 1, 1939.

stuffs. For the last 7 months of the year, these two groups registered only small changes, and a slight gain in the prices of food products was more than offset in the combined index by a further moderate decline in prices of commodities other than farm products and foods. The changing relationship between the price level of farm products and industrial commodities is illustrated in figure 4. In the latter part of 1936 and in early 1937, the index of wholesale prices of farm products on a 1926 base rose somewhat above the index of prices of commodities other than farm products and foods, the spread between the two indexes reaching 5.7 points in April 1937. With the greater reduction in prices of farm products than in those of industrial commodities that followed, the relative position of the two indexes was reversed. The spread widened until

May 1938, when the index of prices of farm products reached a level 14 points below the index of the prices of commodities other than farm and food products. The spread ranged between 12 and 14 points for the remainder of the year.

As is usual in a period of marked changes in business activity, prices of raw and semifinished materials declined more rapidly than prices of finished products in the 1937-38 recession and responded more quickly to the rise in industrial activity that began in the midyear (figs. 2 and 5). Moody's index of the spot prices of 15 staple commodities, more sensitive than the combined index of all raw and semifinished materials, and usually moving more consistently with industrial activity, dropped from around 152 (December 1931=100) in mid-January 1938 to 131 in early June. The index rebounded quickly from the June low as industrial activity expanded (fig. 2) and registered a 17-point rise by the end of July. The fall in prices of industrial raw and semifinished materials, which was halted in June, reflected chiefly the reduced purchases resulting

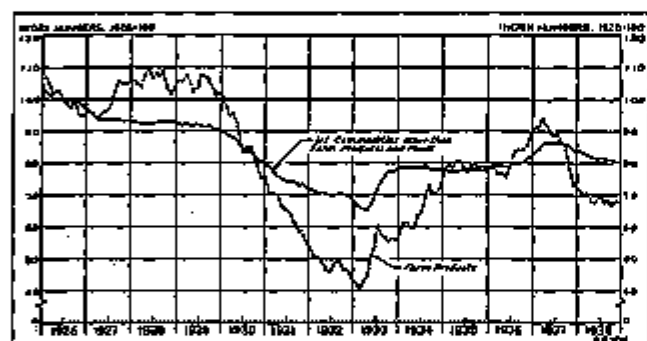


Figure 4.—Indexes of Wholesale Prices of Farm Products and All Commodities Other Than Farm Products and Foods, 1926-38 (U. S. Department of Labor).

from declining business and the accumulation of stocks in producers' hands. Sharp advances from late June to July in prices of staple commodities (notably rubber, nonferrous metals, scrap steel, hides, and silk) were reflected in a moderate advance in the index of prices of industrial raw and semifinished materials, as well as the sharp rise in the spot commodity index. There was no sustained general rise in prices of these materials, despite the rapid advance in industrial activity subsequent to June, as large stocks were available to meet increased demands.

In the upturn in sensitive prices that began in the midyear, prices of scrap steel, following a steady decline from \$14 a ton (Iron Age composite price) in January to a low of \$11 in mid-June, advanced rapidly to \$14.83 in early August, and fluctuated close to the August high during the remainder of the year. The year's peak of \$15 in November approximated the price in August 1936. Scrap-steel prices in 1938 were influenced by the large decline in exports from the record figure for 1937, as well as by domestic market factors. Nonferrous-metal

prices strengthened with the improved market situation in the latter half of the year, though lead and zinc prices declined in late November and December, after reaching the year's highs in the fall months. Zinc prices at the end of 1938 were substantially below those of a year earlier. Rubber prices moved irregularly downward during the early part of 1938, advanced sharply from early June through July, and showed no pronounced change in the later months.

Finished-material prices declined almost continuously during 1938, though remaining at all times above the general price level. The decline reflected in part the adjustment to changed market conditions, lower manufacturing costs, and the pressure resulting from lower consumer incomes. Prices of textile products declined substantially in the first half of the year and fluctuated irregularly after a slight midyear rise. Purchases of clothing by the W. P. A. in the latter half of

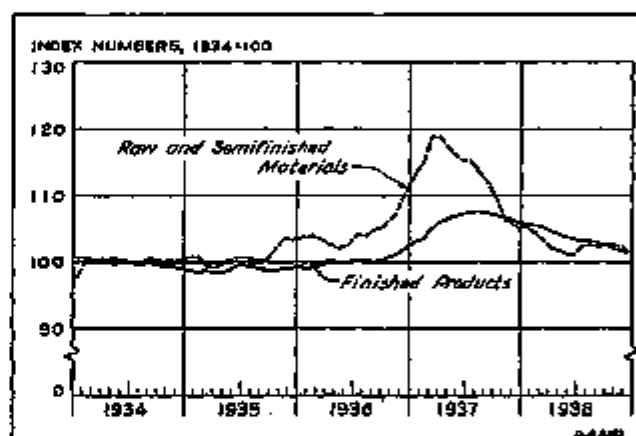


Figure 5.—Indexes of Wholesale Prices of Industrial Commodities, 1934-38.

NOTE.—Classification by Board of Governors of the Federal Reserve System of data of the U. S. Department of Labor; all foods and feeds, both raw and processed, are omitted.

the year were a factor affecting prices of this group. Prices of finished-steel products were reduced from 7 to 17 percent on June 24. A temporary cut in prices of steel sheets and strips in October resulted in large purchases of these products, which had an important effect upon fourth-quarter steel operations, although price reductions were withdrawn in 2 weeks.

Prices of Farm Products

Prices of farm products began the year at depressed levels. Under the influence of the large 1937 harvests and declining consumer income, prices of farm products had fallen over 20 percent from the spring of 1937 to the close of that year, canceling all the gains of the preceding year. The index of wholesale prices of farm products fell during 1937 from a recovery high of 94.1 (1926=100) in March to 72.8 in December. It continued to move lower during the first 5 months of 1938, the index registering 67.5 in May. After small advances in June and July, largely because of a sharp increase in

prices of livestock, the index dropped back to 67.3 in August, as grains sank to the lowest quotations since May 1933 and livestock prices declined. Prospects of large harvests and increasing slaughter supplies of hogs were important factors in the August decline. Prices advanced in September and moved slightly but irregularly downward during the remainder of the year.

Grain prices declined fairly steadily during most of 1938. Wheat prices advanced in January, then turned sharply downward until late May, and, except for a temporary rise in June, showed little strength until the

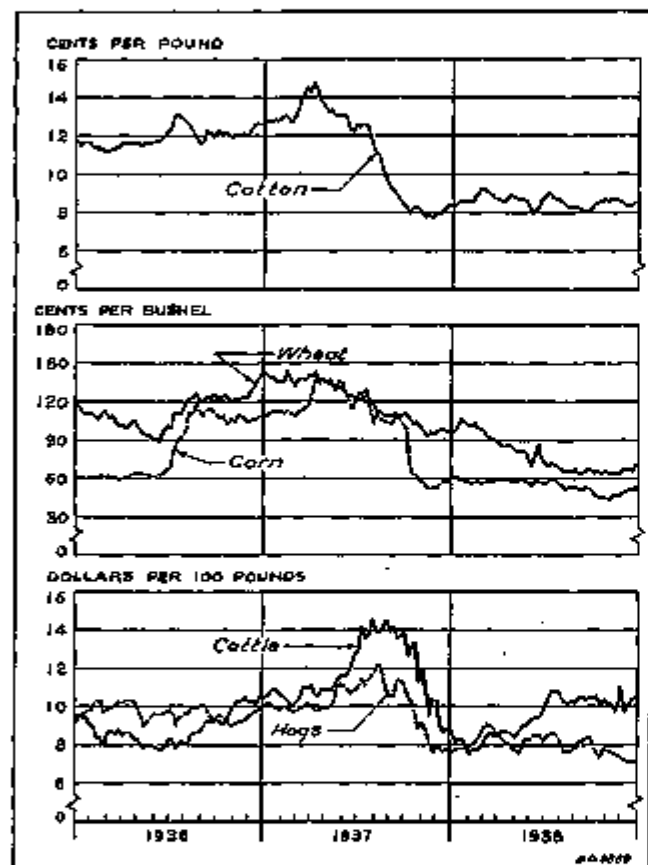


Figure 6.—Weekly Average Market Prices of Important Farm Products, 1936-38 (U. S. Department of Agriculture).

NOTE.—Prices are as follows: Cotton, middling, $\frac{3}{8}$ -inch, average spot price at 10 markets; wheat, No. 2, hard winter, weighted average price of reported cash sales at Kansas City; corn, No. 2, yellow, weighted average price of reported cash sales at Chicago; beef steers from the Corn Belt, weighted average price of all grades sold out of first hands at Chicago for slaughter; hogs, weighted average price, packer and shipper purchases, at 7 markets.

close of the year. The spot price of No. 2, hard winter, at Kansas City, averaged \$1.05 during the 1938 peak-price period in January and declined to 70 cents in early June. After a rise to 87 cents in the third week of June, the price fell back and fluctuated between 63 and 71 cents, the lowest July-December weekly range since 1932. The prospect of a large domestic crop (which became assured in the latter part of the year) and of a record world crop influenced the trend of wheat prices. The price was supported by Government loans which became operative in July, and by export subsidies an-

nounced in September. The last month of the year was marked by a rally attributable to a sharp gain in exports, a reduction in winter-wheat acreage, and unfavorable crop reports for 1939. Corn prices, which had declined more severely in 1937 than had prices of any of the other grains, strengthened in early January 1938 and held fairly stable for more than 6 months. Prices fell during the third quarter, under the influence of the above-average 1938 harvest and the large carry-over from the 1937 crop, and in November reached approximately the level of the same month of 1933, but subsequently advanced. The average weekly market price of corn, No. 2, yellow, at Chicago, ranged from 55.3 to 60.6 cents per bushel to the middle of July, fell to 42.8 cents in November, and advanced to 52.4 cents by the close of the year. Above-average exports and the Government loan program were important factors in sustaining corn prices.

Cotton prices in 1938, as in the latter part of 1937, were dominated by the heavy stocks. The average price of cotton, middling, $\frac{3}{8}$ -inch, in spot markets fell below 8 cents in November 1937. Supported by the Government loan program, which removed large supplies from trade channels, prices strengthened and advanced to over 8 $\frac{1}{2}$ cents in January 1938. Except for periods of weakness in late May and early June and during the European crisis in September, the average weekly spot price held between 8 $\frac{1}{2}$ and 9 $\frac{1}{2}$ cents in the first half of the year, and within only a moderately lower range in the latter half. The spot price at the close of the year approximated the early January average. Poor export demand in the latter half of the year was a depressing influence; the volume of exports in the August-December period of the current cotton season was the lowest since 1918. A large amount of the new crop moved into Government-loan stocks.

Hog prices advanced during the early part of 1938, and following a decline, again advanced in mid-summer; they moved downward after mid-July, reflecting chiefly a large increase in hog marketings. At the mid-March high, the weekly average price of packer and shipper purchases was \$9.07 per 100 pounds. From a secondary peak of \$8.69 in mid-July, the price declined to \$7.17 in the closing week of December, or 6 percent below the corresponding week of 1937. In contrast with the movement of hog prices, cattle prices declined in early 1938, turned upward from mid-February to late July, and held fairly steady throughout the remainder of the year. The price of beef steers at Chicago averaged \$7.49 for the first week of February, the 1938 low, \$10.89 in late July, and \$10.43 the closing week of December, as against \$8.67 a year earlier. Slaughter supplies of cattle were smaller in 1938 than in 1937.

The movement of prices received by farmers in local markets in 1938 roughly paralleled the movement of wholesale prices, though there was some divergence in the closing months. The index of farm prices declined

from 102 (August 1909-July 1914=100) in January to 92 in May and June, compared with a decline of 21 points in the latter half of 1937. From June the trend was slightly but irregularly upward. Grain prices declined steadily except for slight gains in September and December. The farm price index of cotton and cottonseed rose irregularly from a low of 66 in January to 73 in November, then fell to 70. The meat-animals price index advanced in the midyear, but in December was practically at the January levels. In 1937, dairy-products prices had moved in striking contrast to prices of other farm groups, rising steadily in the latter half of the year to a recovery peak in December. Prices fell sharply during 1938, with milk production running heavy, but, like other livestock and livestock-products groups, remained above the general farm price level. The dairy-products price index was 112 in December 1938, compared with 136 a year earlier. Butter purchases by Government agencies, initiated in February, were a strengthening influence.

The lack of balance between prices of farm products and other commodities, indicated by the wholesale price indexes, is further evidenced by the Department of Agriculture's index of ratio of prices received by farmers to prices paid for commodities, which fell from 101 (August 1909-July 1914=100) in January 1937 to 74 in May and June of 1938. The index advanced to 80 in December.

Retail Prices and Cost of Living

Retail prices were lowered only moderately during the business recession as compared with the large decline in wholesale prices. Living costs moved gradually downward in 1938, according to the index of cost of living of urban wage earners compiled by the National Industrial Conference Board, but tended to level off in the closing months and were, on the average, 2½ percent lower than in 1937. The index in December 1938 was 85.8 (1923=100), compared with the 1937 high of 89.5 in October of that year and 88.6 in December 1937. A 5-percent drop in the cost of foods (the most heavily weighted component of the index) from December 1937 to December 1938 was largely responsible for the decline in the general index, although all component groups registered decreases. Clothing costs were 6 percent lower in December 1938, as compared with a year earlier, rents were down 3 percent, fuel and lighting were fractionally lower, and miscellaneous items 1 percent lower.

Food costs were lower in each month of 1938 than in December of 1937, but price movements were irregular, dominated by the pronounced changes in meat prices. Meat prices advanced 9.6 percent from February to July 1938, reversing the sharp downward movement of prices in the preceding 6 months, then declined 6.6 percent by December, reaching a level 5.4 percent below that of a year earlier. Fruit and vegetable prices, which experienced the severest declines of the food group in

1937 and were the major factors in the decline in food costs that began in June of that year, were slightly higher in December 1938 than a year earlier, while cereals and dairy products showed decreases of 7.6 and 10.3 percent, respectively. All other food groups except eggs registered declines.

Prices of department-store articles, as measured by Fairchild's index, averaged 5.7 percent lower in 1938 than in 1937. The index dropped from a high of 96.6 (January 1, 1931=100) on September 1, 1937, to 89.0 on August 1, 1938, and remained unchanged until the close of the year except for a negligible decline of only 0.1 of a point from November 1 to December 1.

Wholesale Prices in Foreign Countries

Wholesale prices in foreign countries, as reflected in their official index figures, tended to weaken throughout 1938 in the absence of exceptional factors which in a few countries prevented the indexes from following world price trends. (See fig. 7.) Toward the close of the year, however, the rate of decline became much less rapid, and only the continued drop in cereals and certain other agricultural products prevented a reversion to slightly higher levels.

United Kingdom.

The United Kingdom may be taken as the outstanding example of the countries in which the play of normal factors influencing price developments was relatively unhampered. The general index of wholesale prices in the United Kingdom was still tending to decline slowly at the end of 1938; the December index was the lowest for the year, and 8.6 percent under the index for December 1937. After August, however, the net decline was very small, and a temporary rally occurred during October. After the middle of the year, the price weakness was confined almost exclusively to the cereals group; other groups either oscillated within narrow limits during the second half of the year or rallied somewhat, the nonferrous metals group rising to the highest figure since October 1937. The combined index for foodstuffs, influenced mainly by the continued weakening in cereals, reached its low point in November, recovering slightly in December. Industrial materials and manufactures had reached the year's low in June. Despite the decline in the general price level during 1938, the average for the year was higher than in any earlier year since 1929, except 1937.

Sweden, Netherlands, Belgium, and Canada.

Prices in Sweden were for the most part allowed to find their own level in 1938; although it is the official policy to prevent violent fluctuations, and many internal prices are stabilized by agreement among producers over considerable periods. Vegetable foodstuffs, feedstuffs, and textiles weakened throughout the year. Most other groups and the general index declined until

August, and thereafter showed little change; metals and metal products continued the decline through September and, along with fuels and oils—which were still falling in November (the latest month for which details are available)—experienced the greatest net drop for the year (18 percent). The fall in the general wholesale index from December 1937 to December 1938 was 6.6 percent, as against 8.6 percent for the United Kingdom.

The wholesale index for the Netherlands reached its lowest point for the year in November, with a slight upturn in December. The decline in the foodstuffs group was less marked than in several other countries; and in this group two export products, butter and cheese, though averaging slightly lower than in 1937, were in November 1938 as high as or higher than a year earlier.

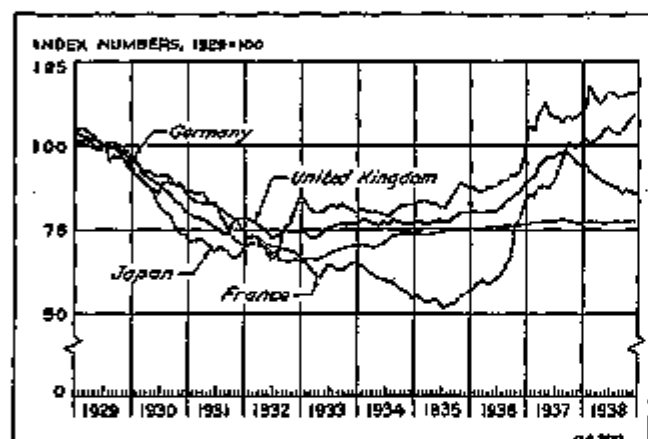


Figure 7.—Indices of Wholesale Prices in Four Principal Foreign Countries, 1929-38.

NOTE.—Indices have been recomputed on a 1929 base from data compiled from official indexes of the respective countries.

The net decline of 8 percent in the Belgian index was about the same as for the United Kingdom, but the downward trend continued throughout the year, except for a slight rally in September. The weakness at the end of the year was largely in foods and textiles but some weakness was also shown in petroleum products, chemicals, and fats.

For Canada the decline between the end of 1937 and the end of 1938 was somewhat greater than that for other countries (11.4 percent), probably owing to the importance of grains in the Canadian economy. The decline in the index figure for grains amounted to over 50 percent in 1938.

France.

The chief factor in French price developments during 1938 causing them to deviate widely from the general trend was the weakness of the currency throughout the year. The wholesale index in December was 8.4 percent higher than a year earlier, a large part of the increase occurring between September and December. Reduced to a gold basis, however, there was a net

decline in the December index from December 1937; on this basis the price index reached its minimum in September. Accompanying the rise in the actual index toward the end of the year was a steadying of the exchange value of the franc; so that the gold index reflected almost in its entirety the rise in the unadjusted index. The comparative price position of France at the end of the year was thus better than a year earlier, despite the rise in the final quarter; and while the rise in prices in terms of the franc intensified internal economic difficulties, the decline on a gold basis may help to account for the rather sharp rise in French exports in the closing months of 1938.

Germany, Italy, and Japan.

In countries with a closely controlled economy, exemplified in 1938 chiefly by Germany and Italy, world price trends had a rather remote influence, and the relative scarcity or abundance of commodities was a factor of greater importance than their price quotations. In Germany, prices during 1937 had failed to follow the rise and subsequent decline of world prices; and similarly in 1938, in contrast with the declines in most other countries, prices were relatively stable, with a tendency to advance slightly toward the close of the year. In Italy, under price control the wholesale price index did not rise following the devaluation of the currency late in 1936 to a degree commensurate with the reduction in value of the currency; and, on the other hand, the fall in international price levels late in 1937 and over most of 1938 was not reflected in Italian prices. The index after currency devaluation rose steadily, though slowly, through December 1937, and after a temporary reaction in January and February 1938 again advanced (aside from a drop in July) through November 1938, the latest month covered by available data. Between September 1936 and December 1937, the rise amounted to 25 percent (in contrast with a rise of 50 percent had prices reacted directly to devaluation of the currency). The net increase between December 1937 and November 1938 amounted to slightly less than 1 percent. In both Germany and Italy the use of substitutes was required in the case of sales in the domestic market, a few commodities were practically unobtainable at any price, and in some instances the standard of quality is reported to have been lowered.

In Japan, the emphasis was on production control rather than price regulation, with particular attention to military requirements. The advance, however, was not uniform, the increase being concentrated mainly in the period between November 1937 and June and July 1938. The index was somewhat lower in August and September; and although an upward trend was resumed in October, the November figure was still slightly below the June-July level.

Production

Manufacturing

MANUFACTURING production, which had fallen very sharply in the final 4 months of 1937, experienced but slight variation during the first half of 1938. In the absence of the seasonal expansion usual during this period, the adjusted Federal Reserve index drifted moderately lower through May. In that month the production of nondurable goods turned upward, and was followed in July by an increase in the output of durable goods. For the remaining months of the year, production of both types of products rose to a point substantially higher than the low of the second quarter; although by the end of the year, total volume of manufacturing output was about 5 percent less than the 1937 average, on a seasonally adjusted basis.

Despite the marked recovery in manufacturing operations in the last 6 months of the year, the volume of factory output for 1938 was nearly one-fourth below that of 1937, according to the Federal Reserve index. Data recently made available by the Bureau of the Census indicate that in 1937 the value of product of all manufacturing industries was 60.7 billion dollars. This was nearly twice the value of output in 1933, and only about 11 percent less than the 1929 value. As prices in 1937 averaged considerably lower than in 1929, the volume of output in 1937 was apparently not far below the 1929 peak, although on a per capita basis it was definitely lower.¹ The population increase in the 8 years was about 7 percent.

Only a few major industries produced a larger volume of products in 1938 than in 1937; and, with few exceptions, these gains were small. The changes in the available series for a wide range of industries are shown in figure 9. The difference in the declines in the durable and nondurable goods industries is clear from this chart.

Fluctuations in Durable Goods.

As is usual during cyclical fluctuations in business activity, output of durable goods during the past 2 years underwent much wider fluctuations than did production of nondurable goods. Figure 8 reveals that durable-goods production in June 1938 dropped to a volume approximating the average of 1933, and then advanced to a level not far below the average for 1936. Changes in the output of nondurable goods were of much smaller amplitude, but the chart indicates that output of these industries in the second quarter of 1938 was down to the 1933-34 level.

While the rise in business activity and in the national income during the latter half of 1938 gave a marked stimulus to sales of durable consumers' goods, expansion in producers' goods industries was slow during this period. Considerations of technical efficiency promote capital expenditures during periods of rising business and security markets, but with a large volume of plant and equipment idle as a result of subnormal operations, the need to expand existing facilities was not urgent, even at the end of 1938.

Machinery.—Machine-tool orders during 1938 were markedly below those of 1937, but compared favorably with such orders for other recent years except 1928 and 1929, when productive facilities were being rapidly

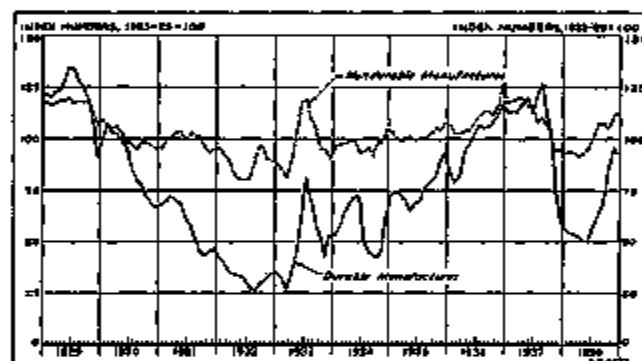


Figure 8.—Indexes of Manufacturing Production, 1929=38 (Board of Governors of the Federal Reserve System).

NOTE.—Durable manufactures include iron and steel, automobiles, lumber, shipbuilding, locomotives, nonferrous metals (including copper smelting through 1931 only; comparable data are not available subsequent to that date), cement, polished plate glass, and coke; nondurable manufactures include textiles, leather and products, food, tobacco products, paper and printing, petroleum refining, and automobile tires and tubes. Indexes are based upon physical volume and are adjusted for seasonal variations.

increased. According to the index compiled by the National Machine Tool Builders Association, new orders reached a recovery high of 283 (monthly shipments 1926=100) in April 1937. The index declined rapidly in subsequent months, reaching 68 in May 1938. Thereafter the index turned upward, and by December reached 147. During the first half of the year, foreign sources provided a little more than half the total business booked. Such orders fell off in the latter months of the year, but this decline was more than offset by the rise in domestic business. From the point of view of both orders and shipments, 1938 was a year of exceptionally large foreign business for this industry. Exports of metal-working machinery, for example, were valued at nearly 60 percent more than in 1937.

Marked declines in 1938 business were the rule for the other machinery industries for which data are available. New orders for electrical equipment were a third lower

¹ An index of the volume of industrial production based on the Census of Manufactures is available for census years covering the period 1870-1936. (See the *Biennial Census of Manufactures, 1934*.) An index for 1937 may be available at a later date.

than in 1937 and 40 percent less than those of 1929, according to data reported regularly by 78 manufacturers. Shipments of foundry equipment and wood-working machinery were only about one-half as large as in 1937, and shipments of electric overhead cranes were reduced about one-third. Other important machinery items which were produced in smaller quantities in 1938 than in 1937 included air-conditioning equipment, oil burners, mechanical stokers, and pumps (steam, power, centrifugal, gasoline, oil, grease, and other). According to sample data collected by the Bureau of the Census, the value of tractors produced (excluding garden tractors) was 34 percent less than in 1937, but output of combines and grain threshers was higher. Data for other types of farm equipment are not yet available.

Steel.—Steel-ingot production in 1938 amounted to about 27,800,000 tons—approximately three-fifths of the 1937 total and not much more than half of the record (1929) output. Ingot output engaged less than one-third of capacity until July and finishing plants were operating at the same low rate, as distributors and industries using steel gradually adjusted their stocks to the lower level of consumption. By July, price reductions, combined with the revival in business generally, led to a sustained rise in the rate of operations. In November, the mills were producing ingots at the rate of 61 percent of capacity, but in the concluding month of the year, operations were reduced to 54 percent, a more than seasonal decline. Fluctuations in the final quarter were influenced by temporary price reductions which induced a substantial volume of advance purchasing of the products affected, for delivery before the end of the final quarter.

Although final figures are not yet available, it appears that all of the major consuming industries took less steel in 1938 than in 1937. Consumption by the railroads, and by the automobile, machinery, and metal-container industries was definitely reduced, and it is likely that less steel went to the building industry than in 1937.

Automobiles.—The automobile industry typifies the durable consumers' goods lines, in which sales and output are subject to wide variations as business activity advances or recedes. (See fig. 9.) In the middle of 1938, the monthly output of passenger cars and trucks dropped to less than one-third of the assemblies a year earlier. The trend was downward until early fall; but production gains after September, when new-model cars became available, were in excess of the estimated rise which usually accompanies new-model introductions. In November and December, output rose above the 1937 production, following the sales pattern. Passenger-car production for the year was about half of the 1937 total, and the decline in motor-truck output from the record 1937 total was almost as great.

The trend in production and sales of other durable

consumers' goods followed, in general, the pattern of the automobile industry, although the 1938 decline was not so large in the other major lines for which data are

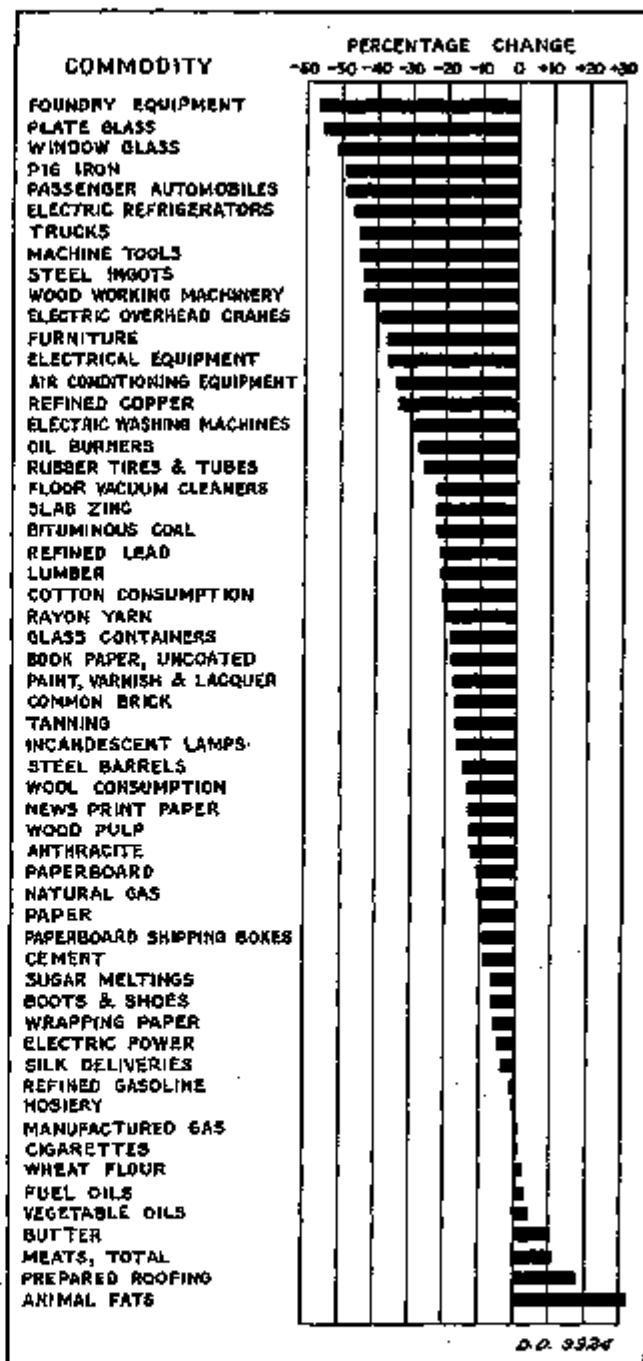


Figure 9.—Percentage Changes for Selected Commodities, 1938 from 1937.

NOTE.—For sources of basic statistics, see the 1938 Supplement to the Survey of Current Business, except for incandescent lamps and electric washing machines which are published in "Electrical Merchandising" for January 1939. Data represent production except as otherwise stated and except as follows: Cigarettes are tax-paid withdrawals from bonded warehouses; electric refrigerators, passenger automobiles, trucks, and paint, varnish, and lacquer represent manufacturers' sales; electric washing machines and incandescent lamps are retail sales; manufactured gas and natural gas are sales to consumers; common brick, electric overhead cranes, paperboard shipping boxes, prepared roofing, oil burners, and woodworking machinery represent factory shipments; and air-conditioning equipment, electrical goods, and machine tools are new orders placed with manufacturers. Since the preparation of this chart, additional data made available indicate that production of animal fats was 20 percent larger in 1938 than in 1937 instead of 32 percent as was estimated for the chart, and that production of vegetable oils was 1 percent less in 1938 instead of 4 percent larger.

available. The average decline for these industries was probably between 30 and 40 percent.

Aircraft.—Manufacturing operations in the aircraft industry moved forward to a new high in 1938, a contrast to the general trend of manufacturing production. Aggregate value of output, including aircraft, engines, parts, and accessories, was about one-fifth higher than the previous record year, 1937, according to trade estimates. The expansion resulted from larger domestic military deliveries and an active export demand. Value of civil flying equipment produced was smaller than in 1937, airlines having curtailed purchases in 1938 after substantial additions to equipment in the preceding year. Exports of aircraft, engines, parts, and accessories were valued at \$68,000,000 and accounted for about half of the value of total deliveries during 1938.

Building materials.—While data compiled by this Bureau indicate that the value of building construction (including maintenance and work relief) recorded a small gain in 1938, as compared with 1937, building-material manufacturers for the most part operated at a lower rate than in 1937. Lumber production was reduced about one-fifth and cement production about one-tenth. Other products which showed marked declines in 1938 included common and paving brick, bathroom accessories, oil burners, window glass, and gypsum building plasters. Shipments of prepared roofing, however, were nearly a fifth higher than in 1937, and only about 12 percent lower than in 1929.

Production of Nondurable Goods Down 9 Percent.

The nondurable-goods industries did not experience fluctuations of the magnitude shown by the durable-goods lines during 1937-38, but it is nonetheless true that several leading industries, notably certain branches of the textile group, experienced rather marked variations. The Federal Reserve seasonally adjusted index of textile production, based upon data for cotton, wool, and silk manufacturing, dropped more than a third from the summer of 1937 to the spring of 1938. The subsequent revival, which was interrupted briefly in the fall, carried the index, by December, up nearly 60 percent to 117 (1923-25=100), the high point of the year.

Textiles.—Cotton consumption was about one-fifth less than in 1937—the latter being a record year for consumption—and mill takings of wool were reduced for the third consecutive year. Rayon-yarn production declined about one-fifth from the 1937 total, the first major recession ever experienced by this industry. There was, however, a small gain in consumption, stocks being drawn upon during the year. At the close of the year the inventory situation was considered reasonable with reference to the demand. Production of rayon staple fiber, while still a relatively small proportion of

the total, continued to expand, as it has done in other recent years.

Foodstuffs.—The meat-packing industry reported a gain of about 10 percent in the production of beef and veal, lamb and mutton, and pork and lard, in 1938, as compared with 1937. Livestock supplies were larger, after having been reduced in recent years as a result of the 1934 and 1936 droughts. The gains in meat production were largely confined to lamb and mutton, and pork and lard, with the latter classification showing a rise of 20 percent. Consumption of these products showed some improvement, but part of the increased production went into stocks. Production of beef and veal showed a small gain over 1937 and consumption a slight decline.

The canned-vegetable pack was apparently slightly below the record volume of 1937, according to data received from practically all of the important canners. Sugar meltings were reduced about 6 percent in 1938 as compared with 1937, but wheat-flour production increased slightly.

Industrial chemicals.—Production of industrial chemicals was in reduced volume in 1938, as demand from consuming industries making a wide range of products requiring chemicals was curtailed. Methanol, alcohol, sulphuric acid, superphosphates, fertilizers, and numerous other products were included in the list of items which were produced in smaller quantities. The cellulose-plastics industry also reported a decline in output, after having reached a record high in 1937. Manufacturers' sales of paint, varnish, lacquer, and fillers were down about 15 percent from 1937. Animal fats and greases, and shortenings and compounds were among the few products in this group showing gains in output in 1938 as compared with 1937.

Petroleum products.—Output of the major refined petroleum products showed only moderate declines in 1938 as compared with 1937. Gasoline production and consumption each showed a decline of about 1 percent, while stocks, which were at a record figure in the spring, were reduced by the end of the year to a level approximating that of a year earlier. Production of fuel oils (gas oil and distillate fuels) was about the same as in 1937; but as consumption was reduced, stocks at the end of the year were well above those at the close of 1937, and the heaviest on record.

Glass.—Glass-container production was about 18 percent lower in 1938 than in the record year 1937. Output of beer bottles and liquor ware, which were the most important factors in the gain in output in 1937 over that of the preceding year, declined by about 50 percent and 12 percent, respectively. Reflecting in large measure the decline in automobile production, plate-glass output was less than half that of 1937, when production was not far behind that of the record year

1936. Window-glass output in 1938 was halved as compared with 1937 production.

Paper.—The major types of paper were produced in smaller volume in 1938 than in 1937; the decline for the total of all types amounted to about 10 percent. Production of newsprint was reduced about one-tenth, and imports of Canadian product showed an even greater relative contraction. For the other major paper classifications, the declines from 1937 were as follows: paperboard, 11 percent; wrapping paper, 6 percent; coated book, 25 percent; and uncoated book, 18 percent. Production of paperboard shipping boxes was reduced 9 percent.

Rubber tires and tubes.—Production of rubber tires and tubes was about one-fourth lower in 1938 than in 1937, and about 40 percent below that of 1929. The decline from 1937 was in original-equipment tires; while replacement sales showed a gain in 1938, according to the available estimates.

Electric Light and Power

Electric energy utilized in 1938 showed a downward tendency during the first 5 months, extending the decline which began in September 1937. After May, the pattern was reversed, and successive increases occurred in the following 7 months. It was not until November, however, that sales of current to ultimate consumers exceeded those in the corresponding month of 1937. For 1938 as a whole, consumption decreased 6 percent from the record sales in the preceding year to 98,400 million kilowatt-hours, according to reports of the Edison Electric Institute. This represents the first yearly decline since 1932.

Since over one-half of all electricity sold is normally purchased by industry, fluctuations in business activity have a decided effect upon the sales curve. Kilowatt-hour demand of industrial customers was down nearly 18 percent in 1938 in comparison with 1937, the sharpest reduction on record.

Residential and Commercial Loads at Peak Levels.

In contradistinction to the lower average use of electricity by industrial establishments in 1938, residential and retail commercial demand reached new high levels, showing increases over 1937 of 10 percent and 5 percent, respectively. The yearly expansion in sales of current to residential customers was at a slightly lower rate than in the preceding 3 years.

More electricity per residential customer was used in 1938 than in any previous year—850 kilowatt-hours, compared with 793 in 1937 and 727 in 1936. Average rates charged for current sold to the home were again reduced, according to Edison Electric Institute, thus continuing the decline which has been in progress almost without interruption throughout the history of the electrical industry.

At the end of 1938, the electric utilities were furnishing service to over 27,785,000 customers, 601,000 of which were added during the year. More than 168,000 farms were newly connected to electric lines in 1938. The extension of electricity to rural areas has been considerably stimulated by the program of electrification instituted by the Rural Electrification Administration.

Gross Revenues Decline Slightly.

Gross revenues from sales decreased less than 1 percent from the record total of \$2,181,000,000 in the preceding year. Net income of the electric-power companies, however, is estimated at about 7 percent below that in 1937. The curtailment in gross was due to the

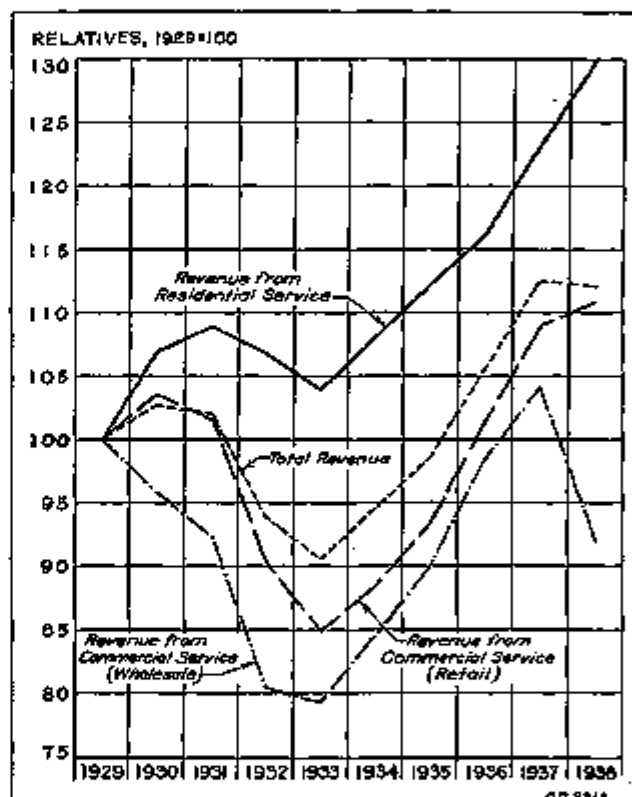


Figure 10.—Trends in Revenues of the Electric Light and Power Industry, 1929-38 (Basic Figures From the Edison Electric Institute).

severe decline in receipts from industrial concerns, since revenues from sales to residential and retail commercial customers were at new high levels. Combined revenues from residential and retail commercial consumers in 1938 represented 64 percent of gross revenues, the highest proportion in any year for which data are available.

A graphic presentation of electric-utility revenues, by principal classes of service, is given in figure 10.

Electricity Generated for Public Use.

The production of electric energy for public use in 1938 totaled approximately 113 billion kilowatt-hours, a decrease of 5 percent from the output in 1937. These data are according to reports filed with the Federal

Power Commission; they do not include current generated by electric railways, electric railroads, and other plants which produce principally for their own use. About 39 percent of the total energy for public use was generated by water power. This compares with 37 percent in 1937 and gives evidence of unusually favorable water conditions throughout the country.

Generating plants available for service (including those owned by electric railways, railroads, etc.) had a total installed capacity of 38,844,000 kilowatts as of December 31, 1938, compared with 37,032,000 kilowatts at the end of 1937. New installations were partially offset by the retirement of old equipment having a capacity of approximately 250,000 kilowatts.

Mineral Production

Coal and petroleum.—Mining industries operated during the first three quarters of 1938 at a rate under that which prevailed in 1937, although production turned upward in the September quarter and moved higher in the final quarter. During the summer months, production of bituminous coal on a seasonally adjusted basis dropped to the 1933 level; for the year, output was more than one-fifth lower than in 1937. Production of anthracite also declined, after reaching a relatively high volume in the spring of 1937; but for the year 1938 the curtailment in output was less than that in the bituminous coal industry.

The maintenance of a high rate of petroleum production through the early part of 1938 brought exceedingly high stocks, so that operations were reduced considerably subsequent to April. Stocks of crude petroleum were then drawn down, and at the end of the year they were the lowest since the industry assumed major importance.

Copper, lead, and zinc.—Primary and secondary output of copper by the refineries was nearly one-third less in 1938 than in 1937. Production exceeded consumption during the first 5 months of the year, with a consequent steady and substantial rise in stocks. Operations were curtailed in the summer, and with a marked improvement in consumption during the latter part of the year, stocks were reduced by the end of 1938 to about the level prevailing at the end of 1937.

Somewhat the same situation prevailed in lead and zinc refining, but production of the latter exceeded consumption by a wide margin. As a result, stocks of zinc, which in the summer of 1937 were the lowest in 13 years, were built up by midyear to the highest level on record. By the end of the year, some reduction in stocks was noted. For the year as a whole, production of lead was about one-fifth lower than in 1937, and zinc output showed a slightly larger decline.

Agriculture ²

Crop production in 1938, reflecting high yields per acre, was reported by the Department of Agriculture to be about 5 percent above average. Output of the 53 major crops was only about 7 percent lower than in the unusually high year 1937. Because of the marked decline in prices, cash farm income from farm marketings was about 13 percent less than in 1937, in which year the total was the largest since 1930. (See fig. 11.) Weather conditions were mostly favorable, although considerable acreage abandonment was reported in the central and northern portion of the Great Plains wheat belt.

Though the average yield per acre was unusually high in 1938, it was about 5 percent below the exceptionally

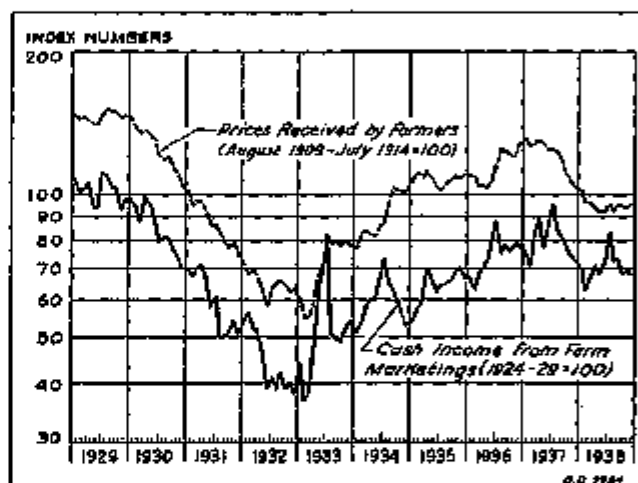


Figure 11.—Indexes of Prices Received by Farmers and Cash Income From Farm Marketings, 1929-38 (U. S. Department of Agriculture).

NOTE.—The index of cash income is adjusted for seasonal variations and does not include governmental payments.

heavy yield of 1937. The total area of 45 crops harvested in 1938 was estimated at slightly under 342 million acres, a small gain over 1937 and an increase of 7 percent over the average for the 4 drought years. The area of crops planted for harvest in 1938 and subsequently abandoned was about 14 million acres. This was the smallest loss of acreage since 1932; but it was a significant proportion of total plantings in the central and northern portions of the Great Plains, where most of the losses occurred. Nearly one-half of the acreage lost was in winter wheat, and about one-fifth was in spring wheat. The total acreage planted exceeded that of the drought year 1934, but was below the acreage in all other years since 1924 and 20 million acres less than the peak plantings of 1932.

² Based on information made available by the U. S. Department of Agriculture, Bureau of Agricultural Economics.

The large reserves carried over from the bumper crops of 1937, together with the relatively large production in 1938, have resulted in an increase in the available supplies of many farm commodities. Supplies have also been affected by the relatively small numbers of livestock on farms. The only crops for which supplies appear to be low are apples, cottonseed, buckwheat, and domestic flaxseed.

Farm Income.

Cash farm income, including government payments, was estimated by the Bureau of Agricultural Economics at \$7,632,000,000 for 1938, as compared with \$8,574,000,000 in 1937 and \$10,479,000,000 in 1929. Receipts from crops were about 18 percent less than in 1937, and income from the sale of livestock and livestock products was about 9 percent less. Government payments, however, were larger in 1938 than in 1937.

Cash income from sales of corn, peanuts, soybeans, and several minor crops was larger in 1938 than in 1937, but for the other important crops, declines were reported. The largest decreases were those for cotton, including seed (25 percent) and fruits and vegetables (22 percent). Larger marketings of fruits earlier in the year were more than offset by lower prices. Sales of vegetables did not vary greatly in volume from the 1937 figure, but prices averaged much lower. The more rapid movement of cotton and tobacco to market, and loans on cotton, tobacco, and corn, helped to maintain incomes from crops in 1938. The Bureau reported that by the end of the year nearly 95 percent of the 1938 cotton crop had been sold or placed under government loans by farmers, as compared with an 85 percent disposal of the 1937 crop at the end of that year. Also, a much larger than usual proportion of the 1938 flue-cured and burley tobacco crop was sold in the calendar year 1938. Part of the cotton, corn, and wheat crops which ordinarily would have been held by farmers until 1939 was placed under government loan in 1938, and the inclusion of loans in the estimates of income has helped to increase the returns from these crops during 1938.

Marketings of livestock and livestock products were slightly larger than in 1937, but lower prices reduced the cash income from this source. Receipts from sales of meat animals were reduced about 7 percent from 1937, while those from dairy products showed approximately the same reduction. Income from the sale of chickens and eggs was about 11 percent lower in 1938. The trend of total cash income from farm marketings is shown in figure 11.

Cash income in the North Atlantic States was 7 percent lower in 1938 than in 1937; Vermont, with increased returns from maple sugar and dairy products, was the only State in this region for which a larger income was reported for 1938. Income from all crops, except apples and pears, was smaller than a year earlier in the

region as a whole, and smaller returns were obtained from all livestock products.

In the East North Central States, decreased returns were reported from all farm commodities except corn and tobacco; in the aggregate, the decline from 1937 was nearly 11 percent. Larger income from corn, cattle, and hogs, in Iowa, and from corn, wheat, cattle, and hogs, in South Dakota, lifted total receipts in these States 7 and 8 percent, respectively. In Iowa a substantial part of the increase was from loans through the Commodity Credit Corporation. Despite these gains, the West North Central States as a group reported a 7-percent decline in 1938 as compared with the preceding year. The South Atlantic States reported significant declines in receipts from cotton, tobacco, citrus fruits, and truck crops, with the decreases for all products amounting to 15 percent. Government payments were larger because of cotton-price-adjustment payments, so that total receipts for the region were down only 12 percent.

Receipts from the sale of farm commodities were reduced about 17 percent in the South Central States. As in the South Atlantic States, larger government payments partly offset the lower revenues from sales, so that total receipts were 12 percent lower than in 1937. Among the crops, the largest reductions were those reported for wheat, cotton, and truck crops. The Western States also reported decreases in receipts from both crops and livestock. These were offset to a small extent by the gain in government payments, but the total of all receipts was 19 percent lower than in 1937. The largest reductions were in receipts from wheat, cattle, potatoes, truck crops, citrus fruits, and grapes.

Prices of Farm Products and Production.

Average prices received by farmers showed relatively small fluctuations during most of 1938. According to the Bureau of Agricultural Economics index based on prices of 47 commodities, prices declined slowly in the first half of the year, in continuation of the decline which occurred during the final 4 months of 1937. In June 1938 the index stood at 92 (August 1909-July 1914=100), as compared with 97 in February and 123 in August 1937. During the latter half of 1938, the index advanced until it reached 96 in December. Though the index showed only minor changes from month to month in 1938, the average for the year was about one-fifth lower than in 1937 (fig. 11). Prices paid by farmers (excluding rents, wages, and interest on mortgage loans) showed only a small decline from the middle of 1937 to the end of 1938. A discussion of price movements is included in the price chapter.

Wheat.—The wheat crop totaled 930,801,000 bushels, about 6 percent above 1937 and nearly one-fourth larger than in the 10-year period 1927-36. The large crop was produced despite the abandonment (because of unfavorable weather conditions in the West North

Central States and in the southern portion of the South Central States) of more than 12 percent of the original acreage planted. The yield per harvested acre was lower than in 1937 and also slightly below the average for the 10-year period 1927-36.

Corn.—Corn production for all purposes was 2,542,238,000 bushels in 1938, a decline of 4 percent from 1937 but a substantial increase over the 10-year average (1927-36). The yield per harvested acre was large, though slightly below 1937, when the largest yield in 15 years was reported. Acreage planted to corn was somewhat less than in 1937 as a result of acreage quotas established by the Agricultural Adjustment Administration. Government holdings of corn under the 1938 and 1938-39 loans are small relative to the large holdings from the 1934 crop, but are somewhat above those for the intervening years. Production of oats was about 9 percent less than in 1937, and the barley crop was about 14 percent larger.

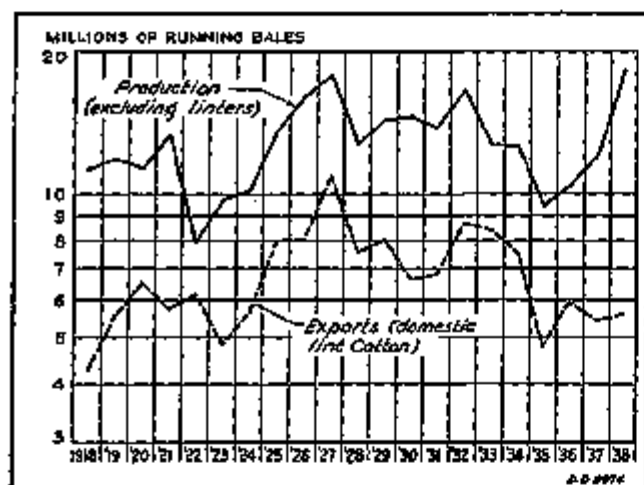


Figure 12.—Production and Exports of Cotton, 1918-38 (U. S. Department of Commerce).

Note.—Production data relate to growth of the preceding year, while exports relate to the crop year ended July 31.

Cotton.—The cotton crop was estimated at slightly over 12 million bales, as compared with an exceptionally heavy production of nearly 19 million bales in 1937. The 1938 crop showed the second highest yield on record and was secured from the smallest acreage picked since 1900. The decline in production was accompanied by a drop in both domestic and foreign consumption of American cotton. For the third consecutive year, world stocks recorded an increase, the 3-percent rise in 1938 lifting the total above 60 million bales, of which about one-half is American cotton. Exports continued at a low level; and while the total for the crop year ended July 31, 1938, was slightly above the preceding year, exports of the new crop through December were the smallest for any similar period since 1918.

Inasmuch as figure 12 presents the data on a cotton-year basis (August-July), the yield from the 1938-39 crop is not plotted.

Despite the unfavorable supply situation, the price of middling $\frac{1}{8}$ -inch cotton was maintained above 8 cents a pound throughout the year, supported chiefly by the government loan to cotton growers. Government-loan stocks of cotton were more than 10,700,000 bales at the end of 1938. On December 10, the cotton growers voted to extend the cotton marketing quotas during 1939.

Fruits and vegetables.—Fruit production, including the prospective 1938-39 citrus crops, will probably be about 10 percent below the large crops of 1937, but otherwise will be the largest on record. The quantity of vegetables produced for canning and processing was only about 5 percent below the record crop of 1937. Vegetables grown for shipment to markets were raised on only a slightly larger acreage than last year, but production was up 6 percent and at a new record high.

Feed grains.—Production of feed grains in 1938 was about 4 percent lower than in the preceding year and about the same as the average for the years 1923-32. The carry-over from the 1937 crop was unusually large; and, with livestock numbers still relatively low, the supply of feed grains per unit of livestock and poultry is as large as in any year since 1921. Including the carry-over, the supply of hay per unit of livestock is the second largest in 30 years.

Livestock and Livestock Products.

With feed grains abundant and cheap, there was a general tendency to feed livestock and poultry rather liberally during 1938. The production of livestock and livestock products, however, was limited by relatively small numbers of livestock on farms, particularly of hogs and chickens, as the result of liquidation following the droughts of 1934 and 1936. Although final figures are not yet available, present indications are that the net production of meat animals during 1938 was about 7 percent larger than in the preceding year. The heaviest increase in production, compared with 1937, was for hogs, which, with a favorable corn-hog ratio, showed a gain of 15 percent over 1937. This ratio in November was the highest on record, and was only slightly less favorable in December. Sheep and lamb production was about 5 percent larger than in 1937, and production of cattle and calves showed a somewhat smaller gain. For cattle and calves, heavier slaughter weights more than offset the decline in the number of animals slaughtered. The quantity of milk produced on farms was the largest on record—about 4 percent more than in 1937. Production of chickens and eggs was also larger in 1938, the former showing a gain of about 10 percent and the latter 2 percent.

Construction

THE marked rise in construction contracts awarded from March through the final month of 1938 was an outstanding development of the year. The seasonally adjusted data plotted in figure 1 indicate that the value of contracts, as reported by the F. W. Dodge Corporation, dropped in early 1938 to the level of the spring of 1936, but subsequently more than doubled. The December index was higher than at any time since the first half of 1930.

The trends of construction activity for the year 1938 have been reviewed in a previous issue of the Survey.¹ In summary, it may be stated that the volume of construction activity for the year was approximately \$8,800,000,000 and was the largest figure reported in any year since 1930, according to the estimates prepared by the Bureau of Foreign and Domestic Commerce.

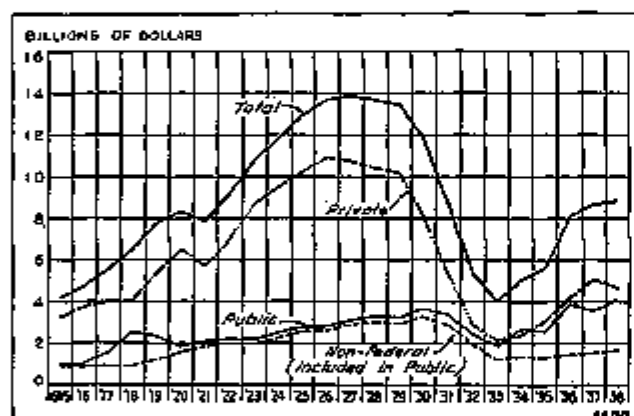


Figure 13.—Estimated Value of Total, Private, and Public Construction, 1915-38 (U. S. Department of Commerce).

NOTE.—Estimates include value of new construction, maintenance and work-relief construction. Non-Federal construction estimates do not include Federal aid or Public Works Administration grants, but do include all Federal loans.

The total, which includes current expenditures during the year, not only for new construction, but also for maintenance and work-relief construction, represents a moderate increase over the figure of \$8,675,000,000 for 1937. Public-construction expenditures, including new construction, maintenance, and work-relief construction, moved up \$541,000,000 over the preceding year. Private construction failed to extend the gains made in the previous 4 years and declined approximately \$425,000,000.

Although construction activity has risen steadily since 1933, the total volume for the past year was little more than three-fourths of the average annual volume during the period from 1920 to 1929. In 1938, new construction alone amounted to only 58 percent of the average dollar volume of this class of construction dur-

ing the previous decade. The fluctuations in private, public, and total activity since 1915 are shown in figure 13.

Construction Prospects

In view of the improvement in general business conditions and in the real-estate market, prospects of an increase in private construction activity in 1939 are relatively favorable. The volume of public construction for the coming year will be sustained by the continuation of work already started under the Public Works Administration program and by the public housing program of the United States Housing Authority. However, the total volume of public work during the year will depend in part on the action taken by the various governmental units—Federal, State, and local—to supply additional funds.

Private residential building prospects in 1939 are promising, in view of the low vacancy in residential structures, the recent increase in family income, and the substantial increment in the number of families in recent years. The cost-of-housing index of the National Industrial Conference Board, which is based on month-to-month changes in new rentals, declined during the first half of 1938; but in the latter part of the year, the index showed very little change. The index of foreclosures on nonfarm homes, compiled by the Federal Home Loan Bank Board, was about one-fifth lower during 1938 than in 1937.

Factory building fell off sharply in 1938 from the levels prevailing in 1937. However, in view of the recent improvements in industrial production and the related rise in earnings, the outlook for factory building is more favorable than at the end of 1937. Commercial building is hardly likely to experience any substantial increase in 1939, because of the high level of vacancies still existing in this class of structure throughout the United States.

Construction expenditures by light and power companies during 1937 declined slightly from the previous year. The prospective construction budget of light and power companies place expenditures for this year at substantially the same level as 1938; although an increase in construction expenditures is not unlikely, considering the increase in electric power consumption during the last few months of 1938, as well as other favorable developments. In view of the present status of railroad earnings, railroad construction is not expected to be much higher than it was during the past year, barring unusual developments.

Public construction, spurred by the recent Public Works program, will be quite active in 1939. Under the provisions of the Public Works Administration

¹ See Construction Trends in the United States, 1937 and 1938, in Survey of Current Business, December 1938, pp. 11-15.

Appropriations Act of 1938, approved June 16, a fund of \$965,000,000 was authorized for public construction. Of this amount, \$750,000,000 was to be used for grants to State and local governments of 45 percent of the total cost of projects, which, to be eligible under the act, must have been started prior to January 1, 1939, and must be substantially completed by June 30, 1940. Although contracts for all of these projects were awarded, in whole or in part, prior to the beginning of the year, the major impetus from this activity and related expenditures will come in 1939.

Only a small part of the low-rent public housing program of the United States Housing Authority reached the stage of construction in 1938. At the close of last year only 12 projects were under construction by local housing authorities, to provide a total of 9,000 new dwelling units. It is estimated that during 1939 construction work will be started on between 75,000 and 80,000 additional public housing units. On December 8, 1938, when the Authority had earmarked for local communities or already approved for loan contracts a total of approximately \$650,000,000, it was announced that no additional commitments could be made, since the \$28,000,000 available for annual subsidies had been exhausted.

Construction Finance

Interest rates on home-mortgage loans during 1938 either continued to hold steady at the lower levels reached during 1937 or declined further, according to the Federal Home Loan Bank Board, on the basis of preliminary reports received from a large number of cities. The semiannual survey of the National Association of Real Estate Boards, compiled from reports of member boards in 274 cities, indicated that interest rates at the beginning of this year were lower than last year in 29 percent of the cities reporting; in 69 percent of the cities, rates were steady at last year's level; and in 2 percent of the cities, rates had risen. According to the survey, interest rates showed greater uniformity than ever before between geographical sections and between financial centers and small cities.

The volume of urban-mortgage loans made by life-insurance companies increased 5 percent in 1938, according to data published in the Wall Street Journal covering 45 life-insurance companies. Urban-mortgage loans made by these companies totaled \$475,503,000 in 1938, as compared with \$452,151,000 in 1937 and \$356,130,000 in 1936. A plan to make available life-insurance company funds for the direct purchase of real estate and large-scale construction of both residential and mercantile buildings is being sponsored by one of the largest insurance companies. Life-insurance companies have normally been large investors in real-estate mortgages, but until recently did not engage in actual construction work. At the present time, a temporary law is in effect in New York State which permits life-

insurance companies to construct and own large-scale housing projects, and a number of projects have been started under this law. As a first step in the new plan, it is intended to seek amendment of present laws, to permit life-insurance companies to acquire land and buildings (to be used chiefly for commercial and housing purposes), in an amount not to exceed 10 percent of their assets. At the close of this year, the assets of 37 companies having about 82 percent of the total assets of all legal-reserve companies, approximated \$22,500,000,000, according to the Association of Life Insurance Presidents.

Government Aid to Home Financing

The Federal Government continued to play an important role during 1938 in providing funds for home financing. The Federal Housing Administration, despite the lag in residential construction during the early part of the year, transacted the largest annual volume of

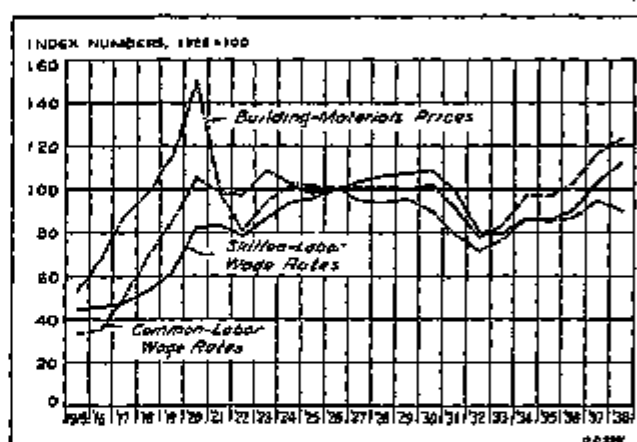


Figure 14.—Indexes of Skilled-Labor Wage Rates, Common-Labor Wage Rates, and Building-Materials Prices, 1915-38 (Wage Rates, Engineering News Record; Building-Materials Prices, U. S. Department of Labor).

business in its history. Under amendments to the National Housing Act, passed early in 1938, the Federal Housing Administration was permitted to accept mortgage loans for insurance on more liberal terms than was formerly provided. Mortgages accepted for insurance by this agency in 1938 totaled \$648,000,000, excluding mortgages on large-scale projects, a gain of 45 percent over the previous year's total. Property-improvement loans for the 11 months from February through December amounted to \$171,719,000. This phase of the Administration's activities had been allowed to lapse on April 1, 1937, except for disaster loans, but was restored by Congress under the 1938 amendments. Multifamily and group housing mortgage-insurance operations also made notable gains, and mortgages amounting to approximately \$47,500,000 were insured on large-scale projects during 1938. The amount of outstanding principal of mortgages which may be insured by the Federal Housing Administration was increased by the President on December 13, 1938, by an additional \$1,000,000,000, to \$3,000,000,000.

This increase will enable the Federal Housing Administration's insurance operations to expand further in 1939.

Federal and State members of the Federal Home Loan Bank System curtailed their lending operations in 1938. The total volume of new loans made last year by all member associations was approximately 620 million dollars, compared with 687 million dollars in 1937. It was estimated by the Federal Home Loan Bank Board that loans by all savings and loan associations, including nonmember associations, were about 800 million dollars in 1938, a decline of almost 100 million dollars from the 1937 level. Of this total, 220 million dollars was expended for new construction, 265 million dollars for home purchase, 160 million dollars for refinancing, 59 million dollars for reconditioning, and 93 million dollars for other purposes.

Costs of Materials and Labor

The level of construction costs during 1939 may prove to be one of the most significant factors affecting construction volume in that year, since any substantial

increase in costs might act as a deterrent to the expected increase in construction activity. The decline in construction activity during the latter part of 1937 and the early part of 1938 was probably attributable, in part, to the rise in the costs of both materials and labor. The wholesale price of building materials (as measured by the Bureau of Labor Statistics index) rose from 85.8 percent of the 1926 average in June 1936 to 97.2 percent in May 1937, the highest point attained by the index since January 1927. Construction wage rates of both skilled and unskilled labor also rose appreciably during this period, according to indexes of hourly wage rates compiled by the Engineering News-Record. The annual index numbers are shown in figure 14. At the present time, the building-materials index is considerably below the high level reached in 1937, the index for the last week in December being 89.2 percent of the 1926 average. Wage rates have not shown any tendency to decline, and as of January 1, 1939, the indexes of both skilled and unskilled wage rates were reported at all-time highs.

Transportation and Communication

Railroads

THE improvement in industry and trade in the final half of 1938 had a favorable effect upon the carriers; but the year as a whole showed reductions in income, expenditures for maintenance, and employment. From the standpoint of operating efficiency, new records were made in 1938 in the average speed of trains and in fuel conservation; passenger travel comfort was increased by inaugurating new streamlined trains; and the general safety record was improved. The railroad problem was the subject (a) of reports by two committees appointed by the President, (b) of a special message to Congress by the President, and (c) of study and recommendations by several private organizations.

The extent of the traffic decline is evident from the drop of 19 percent from 1937 in the loadings of revenue freight, which totaled 30,468,544 cars. In only two post-war years, 1932 and 1933, has the volume of traffic been smaller. (See fig. 15.) The decline in revenue ton-miles was approximately the same as for the number of cars loaded. Passenger-miles were off 12 percent from 1937. Carloadings were lower than in 1937 in each of the first 45 weeks of the year, but showed an increase for the last 7 weeks of the year. In considering this movement, it should be recalled that loadings were declining sharply in the final weeks of 1937.

Passenger service was improved by a record inauguration of 31 new lightweight streamlined trains in 1938 and the modernization of other equipment, by speeding up schedules, and by mechanical improvements designed to increase riding comfort. The orders already placed by several railroads and the better revenue outlook are indications that 1939 will witness a continuance of these improvements. As a result of speeding up schedules during 1938, there are now eight trains in the world, all in the United States, which cover 900 miles or more at average speeds of 60 miles an hour.

Gross revenues of the class I railroads were \$3,566,000,000, or 14 percent less than in 1937. (See fig. 16.) Net railway operating income amounted to \$372,000,000, but this fell short of the fixed charges by \$120,000,000. This net deficit, which was exceeded only in the year 1932, compares with a net income of \$98,000,000 in 1937.

The financial results of the two 6-month periods of 1938 present unusual contrasts, in that 19 percent of the net operating income was earned in the first half of the year, while 81 percent was earned in the second. Normally 40 percent of the year's total is earned the first half and 60 percent the last half. The operating results were reflected in lower quotations for railroad

equities, which in recent years have been depressed by the failure of operations to recover to a profitable basis. Only two large bond issues were offered during the year, while total new rail financing was approximately \$37,000,000, a small fraction of total financing.

At the end of the year, railroad companies operating 79,422 miles, or 31 percent of the total mileage, were in receivership or bankruptcy, a situation little different from that prevailing a year earlier. The Reconstruction Finance Corporation continued to extend financial aid, and the net debt of the railroads to this agency on December 31, 1938, was \$430,593,987, an increase of \$74,700,441 over the latest 12-month period.

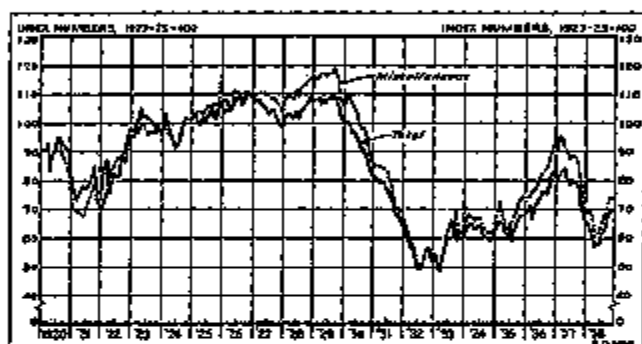


Figure 15.—Indexes of Total and Miscellaneous Freight Carloadings, Adjusted for Seasonal Variations, 1920-38 (Board of Governors of the Federal Reserve System).

Material and Equipment Purchases.

Preliminary reports indicate that the combined purchases of materials and equipment in 1938 by class I railroads amounted to \$394,130,000, or 55 percent less than in 1937, 49 percent less than in 1936, and 77 percent less than in 1929. Purchases of fuel, supplies, and materials used in current operations were \$600,000,000, compared with \$966,000,000 in 1937. Capital expenditures for equipment, roadway, and structures were \$250,000,000 in 1938, compared with \$510,000,000 in 1937. These figures are far below the \$772,800,000 annual average for the years 1921 to 1930. These fluctuations have exercised an important influence upon general business.

In 1938 locomotives ordered totaled 228, 62 percent of the number ordered in 1937, made up of 36 steam locomotives, 29 electric locomotives, and 163 diesel-electric, gasoline, and other types; the latter class showed an increase of 7 units over 1937. Freight-car orders for domestic service, as tabulated by Railway Age, were 16,539, only a third of the 1937 figure and one of the smallest totals on record. Orders for 8,188 cars, placed by a single carrier with the aid of loans from the Reconstruction Finance Corporation, ac-

counted for half of total purchases during the year. Passenger cars purchased in 1938 were 269, also only a third of the 1937 volume.

Concurrent with the upturn in traffic and revenues during the latter months of the year, railroad buying was increasing at the end of the year. The purchases of materials and equipment, exclusive of fuel, from manufacturers during the last 6 months of 1938 were 17 percent larger than in the first half, according to the *Railway Age*.

Inventories of materials and supplies were readjusted downward during the year, and the aggregate value of this balance-sheet item was reduced about one-sixth. The number of locomotives and freight cars owned was reduced during the year. While the number in service was about a fifth less than in 1929, the average locomotive today has a greater tractive effort, and the

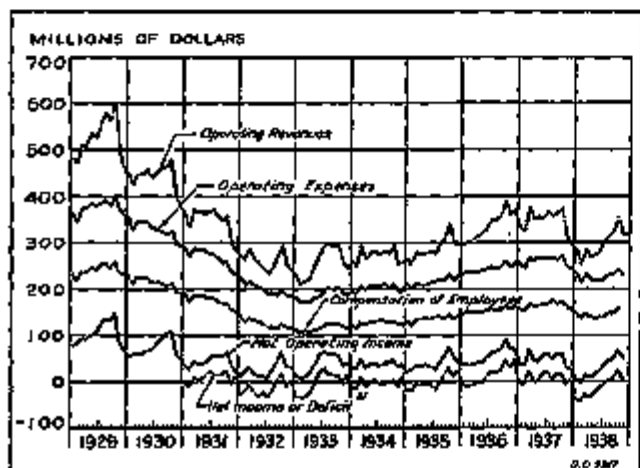


Figure 16.—Financial Operations of Class I Railways, Excluding Switching and Terminal Companies, 1929-38 (Interstate Commerce Commission).

1 Monthly data are not available prior to 1931.

Notes.—Data for December 1938 for all items except "operating revenues," and also for November 1938 for "compensation of employees," were not available in time to include them in this chart.

average freight car has about 5 percent more carrying capacity.

The rail plant is constantly wearing out or becoming obsolete. It has been estimated that 40 percent of existing freight equipment could be replaced with modern equipment to the advantage of the carriers and the public.¹ Seventy percent of the locomotives are 19 years old, or more. The industry could profitably expend large sums for rehabilitation purposes, from the standpoint of operating efficiency, although the magnitude of such expenditures under more favorable circumstances is a difficult figure to estimate.

Rate Changes.

Several proposals for increases and changes in the rate structure were made during the year in an effort to

bolster declining revenues. A general 15-percent increase in freight rates was among these proposals. After hearings, the Interstate Commerce Commission refused to authorize any increase on some commodities, authorized a 5-percent increase on some, and 10 percent on others—the increases to be measured from the basic rates previously in effect. The average net increase authorized was about 5 percent, which became effective at the end of March. Previously the Commission had authorized an increase of 3 to 15 cents a ton on bituminous coal, scheduled to expire December 31, 1938; after further hearings, these rates were extended until further notice.

The eastern carriers, in an attempt to increase revenues from passenger traffic, requested the Commission to authorize an increase from 2 to 2½ cents per mile in coach fares. The permission was first refused; but after subsequent hearings, the eastern carriers were permitted to increase passenger fares, as proposed, for an experimental period of 18 months, beginning in July 1938. An increase of 5 percent in Pullman fares, other than upper berths, effective August 1, was permitted by the Commission; the Pullman Company had requested a 10-percent increase.

Following a year's operation under passenger-coach fares of 2 cents a mile, the southeastern carriers in December announced plans to reestablish their basic fare at 1½ cents per mile, as early in January 1939 as tariffs could be filed and made effective. No decision has been made by the Commission on the Railway Express Agency's proposal to increase express rates.

Labor Conditions.

Rail employment in 1938 averaged 940,000, as compared with 1,115,000 employees in 1937. While the employment was 16 percent lower than in 1937, annual earnings averaged \$1,847, an increase of \$66 per employee over 1937, due to wage increases given most of the operating employees late in 1937 and to a change in the relative proportion of the employment classes. Rail labor organizations refused to accept the general wage reduction of 15 percent proposed by the railroads, and when it became apparent that direct negotiations between management and labor would not settle the question, the service of the National Mediation Board was invoked. A series of unsuccessful conferences was held; and there followed a strike vote by rail labor, which set October 1 as the date of a general strike. In pursuance of the powers conferred by the Railroad Labor Act, the President appointed a three-man board to conduct hearings on the issues involved in the controversy and to report its findings. The board reported on October 29 that the wage reduction was not justified—that rail wages were not high as compared with wages in comparable industries. Following this report, the carriers abandoned the proposed wage reduction.

¹ H. Rep. No. 563, 76th Cong., 2d sess., *Immediate Relief for Railroads*. Message from the President of the United States transmitting his recommendations for means of immediate relief for railroads, p. 20.

Transportation Problem.

During 1938, the transportation problem, particularly as related to the railroads, was the subject of consideration and reports by several committees. In March, the President called conferences of Government and private business representatives. Following these conferences, the Splawn report, together with comments of the other members of the conference, were submitted to Congress on April 11, 1938, as part of a special Presidential message on the subject "Immediate Relief for Railroads."

In September the President appointed a six-man committee, composed of rail executives and rail labor leaders, to survey the transportation problem and submit recommendations. Its report, handed to the President on December 23, contained 14 recommendations, which included formation of a national transportation policy; formulation of an independent agency to investigate and report to Congress concerning the relative economy and fitness of the several modes of transportation, and to have jurisdiction (other than in the matter of rates) over the several modes of transportation; regulation with respect to rates, valuation, and accounting for all modes of transportation to be vested in the Interstate Commerce Commission; a reorganization court for railroads; enlargement and liberalization of Reconstruction Finance Corporation powers to make loans or to purchase equipment. The committee stated that its recommendations would not dispose of all the problems of the railroads, although it believed that these recommendations would remove some of the major difficulties and would help to create stability in the transportation field.

Motor and Electric Transportation

Motor transportation of freight by common carriers was affected by the general industrial decline during the first part of 1938. Truck loadings during the first 7 months of 1938 were considerably below loadings in the corresponding period of 1937. By September, however, the volume of loadings was higher than a year earlier, and a sizable increase over 1937 was reported for the final quarter of 1938. Progress was made in the establishment of stable rates during 1938 as the Interstate Commerce Commission under the provision of the Motor Carriers Act prescribed minimum class and commodity rates for motor common carriers operating in several important industrial areas, though considerable unsettlement still persisted. At the close of the year proceedings of similar character were under consideration for other sections of the country. A system of accounts was prescribed for motor carriers under the jurisdiction of the Interstate Commerce Commission, and annual reports beginning with the year 1938 were ordered.

Passengers carried by motorbus transportation increased substantially in 1938 from the preceding year.

Both city and intercity bus operations showed gains in passengers carried and in operating revenues. The increase in operating revenues of city busses was almost one-fifth and the gain in intercity operating revenues was slightly larger, according to the estimates of Bus Transportation for all common-carrier busses, including those operated by electric-railway companies.

Busses owned by common carriers operating in city and suburban service, according to this source, increased by nearly 5,000 units to around 29,000 units. Purchases of new equipment by common carriers, however, were less than in 1937. During the year 39 cities joined the "all-bus" cities, raising the total of "all-bus" cities to 543 at the end of the year.

Revenue of the electric street-railway industry, including their motorbus affiliates, remained fairly stable in 1938, despite fluctuations in industrial activity. The operating revenues of this industry were 4½ percent

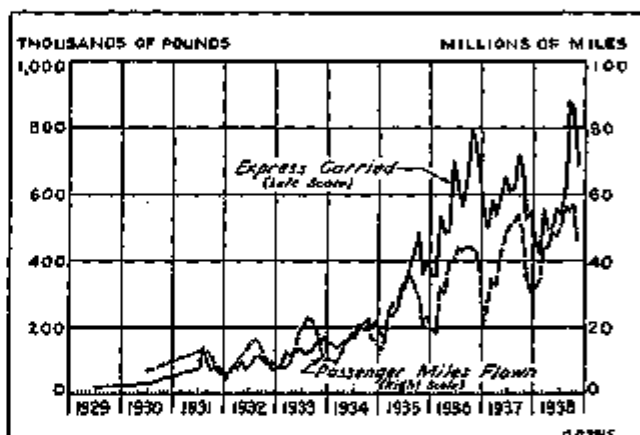


Figure 17.—Passenger Miles Flown and Express Carried by Scheduled Airlines in the Continental United States, 1929-38 (Civil Aeronautics Authority).

NOTE.—Data for December 1938 were not available in time to include them in this chart.

below 1937, the peak year since 1931, according to data compiled by Transit Journal. This reflected a decline of the same proportions in revenue passengers, as the average rate of fare remained the same. Operating expenses were increased, largely as a result of moderate increases in hourly wage rates and changes in working conditions. The industry purchased 3,200 new vehicles, of which more than 2,600 were motorbuses.

Air Transportation

Expansion of commercial aviation continued in 1938, and the manufacturing branch was one of the few industries to show a substantial gain in the value of output. Operations of domestic air lines increased, the number of plane-miles flown being 4 percent larger than in 1937. The number of passengers carried exceeded 1.3 million, an increase of one-fifth over 1937. Passenger-miles flown advanced by about 16 percent. Revenues, however, did not show increases corresponding to the gains in passenger-miles, as fares were lower.

Domestic air lines as a whole continued to operate at a deficit during 1938. There was further expansion in the volume of air mail during 1938; and while the pounds of express carried was little changed from 1937, the monthly volume was at record levels in the fall of the year, as is shown in figure 17.

Shipping and Shipbuilding

Ocean transportation, which attained relatively high levels in 1937, receded during 1938. All types of shipping were affected by the decrease in traffic resulting from the decline in international trade. Rates, which had increased and become somewhat stabilized in 1937, were irregular during 1938. This particularly affected tramp shipping, as conference rates in most instances were covered by contracts for the entire year.

During the year the Maritime Commission installed its "luxury" liner service to the east coast of South America and placed three former intercoastal passenger ships on this run. American-flag service to the Far East, interrupted by the withdrawal of the Dollar Line, was reestablished by the inauguration of the American Presidents Line operating from the West Coast to the Far East.

On December 1, 1938, American shipyards were building, or had under contract for private shipowners and for the account of the Maritime Commission, 230 seagoing vessels aggregating 518,507 gross tons, compared with 144 vessels totaling 263,000 gross tons on December 1, 1937.

During 1938, the Maritime Commission awarded contracts for the construction of 52 ships for a total of about \$130,000,000. It is estimated that ships on order by the Maritime Commission and those to be ordered during 1939 will involve an expenditure of approximately \$140,000,000 for shipyard labor and about \$175,000,000 for the purchase of material.

During the year, a number of shipyards were reconditioned to provide additional shipways. The construction program of the Maritime Commission and that proposed for the United States Navy indicate that in 1939 activity will increase in the shipbuilding field.

Communication

Although at the close of 1938 many telephone companies had the largest number of instruments in service in their history, the total for the entire country approxi-

mated 19,917,000, compared with the peak of 20,200,000 reached in 1930 and 19,380,000 at the end of 1937. The Bell system's net gain of about 430,000 telephones in 1938, compared with 376,000 the previous year, resulted in a new system high of 15,760,000 stations in service on December 31, 1938. The number of toll and long-distance calls completed by the system during 1938 was estimated at 950,000,000, against 975,000,000 in 1937, 925,000,000 in 1936, and slightly more than a billion in 1935.

The operating returns of the telephone companies compare favorably with those of 1937, considering the decline in certain classes of traffic, such as message tolls during the year. Subscriber-station revenues were larger in 1938 than in 1937, and this situation prevailed in most, if not all major regions. Operating expenses increased during the year, so that the ratio of expenses to revenues rose to 68.70 from 67.48 in 1937 (10-month figures). Net operating income was reduced about 10 percent.

Consolidated operating revenues of the Bell system for the 12 months ended November 30, 1938, totaled \$1,050,299,000, compared with \$1,049,926,000 in 1937. Operating expenses at \$717,473,000 represented an increase of over \$14,000,000 compared with 1937, and taxes for the 12 months ended November 30, 1938, showed a gain of slightly more than \$10,000,000 over the corresponding period of the previous year. Net income declined from \$202,733,000 to \$162,230,000 for these comparative periods. Expenditures for new equipment and plant additions by the Bell system were slightly under \$300,000,000 in 1938, contrasted with \$323,000,000 the previous year; inasmuch as the latter figure represented a considerable increase over the 1936 figures, the 1938 total is much larger than that for 1936.

The volume of telegraph traffic, which is influenced to a major degree by changes in the volume of business activity, experienced a considerable contraction during 1938, and both land-line telegraph companies operated at a loss. The trend of operating income was downward from the first quarter of 1937 to the middle of 1938, following which there was some improvement. The 15-percent increase in domestic telegraph rates applied for by the telegraph companies was denied by the Federal Communications Commission. The operating revenues of the cable and radio companies also declined in 1938, but most of these companies realized a net income during the year.

Domestic Trade

Retail Trade

RETAIL sales in 1938 fell below the previous year's level for the first time since 1933. Total sales are estimated at \$35,300,000,000, a decline of about 12 percent from the \$39,900,000,000 total of 1937. In the earlier year, sales were the highest since 1930 and were within 18 percent of the 1929 total of \$49,115,000,000. The general decline in retail prices indicates that the actual quantity of goods sold more closely approximated the 1937 figure than did the dollar value.

During the first half of 1938, sales experienced a widening rate of decline from the level of the previous year, the low being reached in May, when the dollar volume of sales was estimated, on the basis of available monthly statistics, to be about one-fifth less than in May 1937. The relative decrease at that time was twice as large as that recorded at the beginning of the year, January sales being about 10 percent below those of January 1937. The average decrease for the first 10 months of 1938 from the comparative period of 1937 was 15 percent; but the margin of decline contracted to about 4½ percent for November, and in December there was an increase of about 2 percent. December was the first month since October 1937 that sales showed an increase over the comparative month of the previous year. The year-to-year comparisons are affected by the decline in sales toward the end of 1937, a factor which applies as well to similar comparisons made in other parts of this trade review.

All major business groups in 1938 reported sales below the level of 1937, the greatest relative declines being experienced generally in heavy consumers' goods. These, however, recorded improvement during the late months of 1938. Sales of new passenger cars, which had suffered a severe contraction during the first 10 months of the year, advanced decidedly during November and December. The fluctuations in new passenger-car and department-store sales in recent years are shown in figure 18. Sales of lumber and building materials, hardware, furniture, refrigerators, and other household appliances, which had shown a somewhat earlier improvement, went forward in increased volume.

Only 2 of the 15 business groups sustained losses greater than the average decline recorded for total trade, the automotive and the furniture and household-appliance groups falling 35 percent and 17 percent, respectively, below the 1937 dollar volume. Lumber and building materials decreased about 11 percent, as did sales of jewelry stores and farmers'-supply and general stores. Sales of department, dry-goods, general-merchandise, and apparel stores declined about 8

percent. Filling stations and eating and drinking places, with decreases of about 3 percent and 8 percent, respectively, continued above the 1929 level for the fourth consecutive year. Mail-order sales of general-merchandise stores, which declined about 6 percent, exceeded the 1929 volume for the third consecutive year.

Food sales, which do not experience wide fluctuations, although they do reflect shifting price trends, decreased 5 percent in dollar value in 1937. The substantial reduction in food costs during 1938 indicates that the physical volume of goods sold by this group of stores about equaled that of 1937. Drug stores, variety, and beer and liquor stores, in addition to filling stations, all recorded declines of less than 5 percent in dollar sales.

Reports from the lines of business in which chain stores account for a substantial part of the sales volume indicate that chains made a better comparative showing in 1938 than did independent retail stores. This reversed the situation which existed during 1937, when sales of independent stores generally made a relatively better showing than those of chain organizations. Chain grocery, shoe, and apparel shops reported better sales compared with 1937 than did independent stores in the same lines of trade. Drug-store sales, on the contrary, showed a relatively larger increase for independents than for chains.

Estimated Retail Sales, by Kind of Business

NOTE.—All dollar figures for 1938 and computations made therefrom are preliminary estimates and are subject to revision later this year.

Business group (Census classifications)	Sales (millions of dollars)		Percentage increase or decrease (—), 1938 from—	
	1938	1937	1929	1927
United States total.....	35,290	39,930	—23.1	—11.6
Food group.....	9,873	9,340	+5.6	5.0
Beer and liquor stores.....	292	406	—27.6	—4.0
Eating and drinking places.....	2,622	2,878	—9.2	—7.8
Farmers'-supply and general stores.....	1,735	1,993	—12.4	—10.6
Department, dry-goods, and general-merchandise stores.....	2,796	4,197	—33.4	—7.5
Mail-order (retailing sales of general-merchandise stores).....	458	490	—6.5	—6.5
Variety stores.....	354	385	—8.0	—7.8
Apparel group.....	2,823	3,196	—11.7	—8.5
Automotive group.....	2,844	5,950	—52.0	—35.0
Filling stations.....	2,404	2,478	—3.0	—3.0
Furniture and household-appliance stores.....	1,625	1,718	—5.4	—17.0
Lumber, building, and hardware group.....	2,279	2,563	—11.0	—11.5
Drug stores.....	1,876	1,411	+32.9	—2.6
Jewelry stores.....	276	313	—11.8	—11.6
Other stores.....	1,940	2,248	—13.7	—13.0

Source: U. S. Bureau of Foreign and Domestic Commerce.

Sales of Independent Stores.

During 1938, the collection of sales data from independent stores, which was initiated by the Bureau of Foreign and Domestic Commerce in September 1935, was expanded to include Pennsylvania and Florida. At

the close of the year, monthly reports were being received from more than 20,000 independent merchants in 27 States, representing all sections of the country with the exception of the New England States. However, a comprehensive report of a slightly different nature on retail sales in Massachusetts has been issued regularly each month for the past several years.

A review of the 1938 monthly data, classified by city-size groups, indicates that retail sales of independent stores in cities with populations of 10,000 to 50,000 in practically all cases failed to attain the average sales position relative to 1937. During the early months of 1938, cities with populations of 2,500 to 10,000 recorded a relative sales position much better than average, but this margin was reduced during the latter half of the year. Metropolitan centers (cities of over 100,000 population) recorded a somewhat better than average position throughout the year, except for the months of

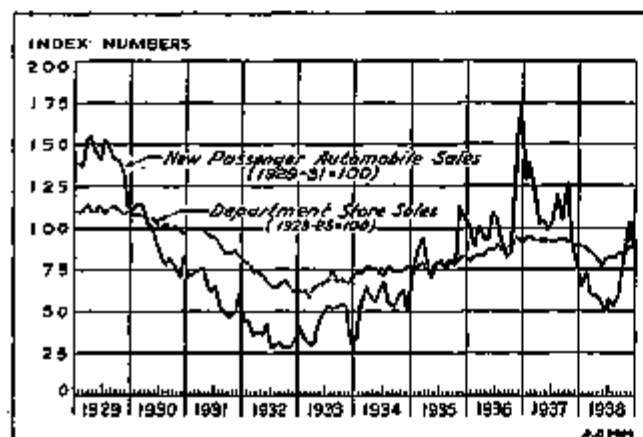


Figure 18.—Indexes of New Passenger Automobile Sales and Department Store Sales, Adjusted for Seasonal Variations, 1929-38 (New Passenger Automobile Sales, U. S. Department of Commerce; Department Store Sales, Board of Governors of the Federal Reserve System).

January and February. Cities of 50,000 to 100,000 populations and rural areas of less than 2,500 showed the smallest relative declines from 1937.

While there was considerable variation in their monthly trends, all geographic regions showed marked relative improvement toward the end of the year. The West North Central and the West South Central areas recorded the best comparative sales position in 1938 in comparison with 1937 results. The widest margins of decline were recorded by industrial areas and by the Rocky Mountain States.

Wholesale Trade

Wholesale-trade activity during 1938 reflected the marked recession from 1937 levels which characterized American industry in general last year. According to preliminary estimates of the Bureau of Foreign and Domestic Commerce, the total sales volume of full-service and limited-function wholesalers last year showed a decrease of about one-eighth as compared with 1937. This sales volume was moderately below

that of 1936, but was well above the 1935 volume. Despite the falling off from 1937, sales during 1938 were still more than 50 percent above the depression low in 1933.

This group of distributors, which corresponds to the "wholesalers proper" classification in the 1933 census and typifies wholesale trade in general, started the year with sales approximately 12 percent below the level of 1937. Percentage declines from the comparable months of the previous year steadily widened until April, when sales dropped nearly one-fifth below April 1937, according to sample data. Subsequently the decline narrowed, and by December, sales of the concerns reporting to the Bureau exceeded those of December 1937 by a narrow margin.

Business during the first 6 months of 1938 was about 15 percent below the corresponding period of the previous year. While no change in this figure was recorded for the 9-month cumulative total, the improved sales conditions during the last quarter narrowed the decline to slightly less than this figure for the calendar year.

The durable-goods trades, such as electrical goods, machinery, and metals, not only recorded larger than average declines throughout the low months from March to July, but they also showed a distinct lag in the recovery period. Leading in the increased sales activity during the last 3 months were a number of semidurable-goods trades, prominent among which were clothing, shoes, and dry goods. The contribution to consumer purchasing power by government expenditure and the clearing of inventories resulted, in some measure, in a need for manufacturers and wholesalers of these commodities to replenish consumers' and retailers' depleted stocks. Sales of nondurable consumption goods recorded rather moderate declines throughout the months of the middle of the year, and, in general, showed some lag during the last quarter. Grocery sales showed a maximum decline of 13 percent during April, while sales of drug and drug-sundry wholesalers did not drop more than 11 percent for any one month in 1938 compared with 1937.

Installment Sales

Following 4 years of continuous growth from 1933 through 1937, the volume of installment sales was severely contracted in 1938. Final estimates prepared by the Bureau for 1937 placed total installment volume of all classes of merchandise at \$4,650,000,000. Present indications point to a volume for 1938 perhaps one-third less than in 1937, which compares with a reduction in total retail volume of less than 12 percent. The largest share of the reduction in installment volume may be attributed to a decline in automobile sales. The dominant influence of automobile sales arises from the fact that in previous years nearly 60 percent of all cars have been sold on deferred payment, and the

dollar volume of such sales has also represented about 60 percent of the grand total of all retail installment sales.

Although it is indicated that the dollar volume of retail sales of new passenger automobiles in 1938 was off approximately 40 percent from 1937; the decline in the volume of installment financing of all new cars amounted to 50 percent. Declines in sales of the other two major installment lines, furniture and household appliances, did not reach such extreme proportions. The combined volume of stores handling furniture and appliances declined only 17 percent in 1938, and this would indicate a somewhat greater decline in the installment volume of these trades. Comparisons of 1937 and 1938 reflect mixed trends, representing a pronounced decline in installment sales at the close of 1937 and a relative improvement in the last quarter of 1938.

One direct result of the decline in installment sales during 1938 was the rapid liquidation of consumer retail installment debt. A reduction of more than 40 percent in retail automobile receivables held by a large group of

finance companies represented the absorption of more than \$500,000,000 of consumer purchasing power from August 1937 through November 1938. This figure must be substantially increased to include all automobile paper and the reduction of consumer debts on furniture, appliances, and other lines. Average consumer installment debt on retail accounts was estimated to have been \$3,100,000,000 in 1937. Liquidation during 1938 may have reduced this average to perhaps \$2,225,000,000.

To some extent, liquidation of consumer installment indebtedness may have been delayed by a slowing down of collections on account of general business conditions. On the other hand, this factor may have been partly offset by greater care in the selection of new credit risks and, in some cases, by the use of more restricted terms. On the whole, the subject of installment terms did not achieve prominence during 1938, in view of the small volume of installment sales affected and the fact that a move to restrict installment terms was featured during the second half of 1937.

Foreign Trade

THE export trade of the United States, valued at \$3,084,000,000, absorbed a larger proportion of the products of our industries in 1938 than in any year since 1930. While the value of exports showed a moderate decline (the first interruption in the upward movement began in 1933) and while there were many shifts in the trade in individual commodities, the quantity of total exports was about as large in 1938 as in 1937. In contrast with a decrease of one-fourth, or more, in the value of manufacturing production and of one-eighth in the gross income from agricultural production, the decrease in the value of total exports in 1938 was 8 percent. Exports of agricultural products were larger in value in 1938 than in 1937, and the decline in exports of manufactures was much less than the drop in manufacturing production.

Changes During 1929-38.

The reduction in the value of foreign trade as compared with 1937 was in considerable part due to the lower price level that prevailed in 1938. After rising in 1937 about 86 percent above the 1932 low, the unit value (price) of total exports of United States merchandise fell off 7 percent in 1938. The unit value (price) of total imports for consumption, after rising 39 percent from 1932 to 1937, decreased about 10 percent in 1938. Index numbers showing the changes that have occurred in the price level of export and import trade during the period 1929-38 are presented in figure 19.

In terms of volume, the export trade increased substantially during the latter part of 1936 and in 1937. In the latter half of 1937, when the decline in domestic demand was adversely affecting business activity, the export trade approached nearer to the 1929 volume than in any intervening year. Although this high level was not maintained in 1938, exports continued to move abroad in relatively large volume through May, and after dropping lower in the third quarter, again moved upward in the fourth quarter. The export trade in both 1937 and 1938 was about one-half larger in volume than in 1932, although one-fifth under the 1929 total.

Export Volume Sustained by Agricultural Exports.

The large United States crops in 1937, when harvests were poor in other important exporting countries, were a significant factor in sustaining the volume of exports in 1938. The outstanding change in the 1938 commodity trade, as compared with 1937, was the substantial gain in exports of grain and the large increases recorded for most of the other agricultural exports with the exception of raw cotton. Cotton was exported in much smaller quantity and value, particularly

to Europe, in the latter half of the year. Leaf-tobacco exports were the largest in quantity since 1931 and the largest in value since 1924. Exports of wheat in 1938 were the most substantial in quantity since 1930, and exports of corn were above those of each year since 1922. There were marked increases in exports of many kinds of fruit; oranges in 1938 showed a record yearly volume. Some improvement was shown for exports of meats, fats, and dairy products, all of which, along with the grains, had fallen to low figures in the immediately preceding years. The total of agricultural exports increased from \$797,482,000 in 1937 to \$827,629,000 in 1938, despite the decrease in unmanufactured cotton from \$368,660,000 to \$228,669,000 in the same comparative periods.

Exports, Imports, and Balance of Trade

Item	1928	1932	1937	1938	Percent increase (+) or decrease (-) 1938 from—		
					1929	1932	1937
	Millions of dollars				Percent		
Exports, total	5,241	1,611	3,240	3,094	-41.0	+92.1	-7.
United States merchandise	5,167	1,576	3,200	3,037	-42.7	+93.9	-7.3
General imports of merchandise, total	4,339	1,333	3,054	1,961	-65.4	+48.2	-30.4
Imports of merchandise for consumption, total	4,339	1,328	3,016	1,900	-55.1	+47.1	-35.2
Excess of exports (+) or imports (-):							
Merchandise	+642	+288	+235	+1,134			
Gold	-175	+440	-1,364	-1,974			
Silver	+10	-0	-80	-223			
Index numbers 1929-25=100							
Exports, United States merchandise:							
Value	115	35	74	68	-40.7	+92.1	-7.3
Quantity	132	69	106	105	-20.5	+51.6	-7.3
Unit value (price)	87	51	70	65	-25.4	+32.4	-7.3
Imports for consumption:							
Value	113	34	79	51	-55.2	+49.3	-35.2
Quantity	121	79	121	94	-28.2	+19.6	-27.7
Unit value (price)	87	43	66	54	-37.6	+24.7	-10.4

¹ Import index numbers are based on general imports in 1929 and 1932 and on imports for consumption in 1937 and 1938. The ratios of the index of value in 1938 to the index of value in years prior to 1937 differ slightly, therefore, in some instances, from the ratios which are based on absolute values.

Changes in Manufactured Exports.

Exports of a number of manufactured articles for which demands in foreign countries had greatly increased in 1937—partly as a result of armament programs—continued to expand during 1938. In this group were included metal-working machinery and aircraft, exports of which were several times larger in value in 1938 than in 1929; oil-well and refinery machinery, and fuel oil exports of which were also above the 1929 total. Exports of gasoline and of copper were larger than the 1937 volume, but below the high volume in 1929.

Exports and Imports, by Economic Classes and Principal Commodities

EXPORTS OF UNITED STATES MERCHANDISE

Class and commodity	Value (millions of dollars)					Percent of total					Percent increase (+) or decrease (-), 1938, from—		
	1929	1932	1936	1937	1938	1929	1932	1936	1937	1938	1929	1932	1937
Total	5,157.1	1,570.2	2,418.0	3,298.9	3,056.8	100.0	100.0	100.0	100.0	100.0	-40.7	+53.9	-7.3
Agricultural products	1,692.8	682.3	708.6	707.5	827.6	32.8	43.0	29.3	24.2	27.1	-51.1	+25.0	+3.8
Nonagricultural products	3,464.3	912.9	1,709.4	2,591.4	2,229.2	67.2	57.0	70.7	75.8	72.9	-35.7	+143.9	-10.9
Crude materials	1,142.4	512.7	608.1	721.9	694.4	22.3	32.6	27.6	21.9	19.4	-48.5	+18.7	-17.7
Crude foodstuffs	289.6	88.4	58.1	104.5	249.0	5.6	5.7	2.4	3.2	8.1	-7.5	+178.5	+138.9
Manufactured foodstuffs and beverages	459.3	132.1	143.8	177.7	184.1	8.9	8.7	5.9	5.4	6.0	-62.9	+21.8	+3.6
Semi-manufactures	723.6	196.7	304.6	339.3	356.8	14.1	12.5	16.2	20.6	16.5	-30.6	+157.1	-20.4
Finished manufactures	2,531.8	624.2	1,154.1	1,615.5	1,523.4	49.1	38.6	47.7	49.0	49.8	-30.8	+144.1	-5.8
Machinery, including office appliances and printing machinery	604.4	131.3	334.9	478.1	486.1	11.7	8.3	13.8	14.5	15.9	-10.6	+270.3	+1.5
Petroleum and products	581.2	308.4	283.5	375.4	388.0	10.0	13.2	10.9	11.4	12.7	-30.7	+88.6	+3.2
Automobiles, parts, and accessories	541.5	76.3	240.3	348.9	270.4	10.5	4.8	9.9	10.6	8.8	-50.1	+244.9	-22.1
Cotton, unmanufactured	770.8	345.2	361.0	383.7	228.7	14.9	21.9	14.9	11.2	7.5	-75.3	-33.8	-88.0
Iron and steel-mill products	200.1	28.9	111.9	300.1	184.3	3.9	1.8	4.6	9.1	6.0	-7.9	+133.7	-88.6
Tobacco, unmanufactured	146.1	65.9	137.3	131.4	135.7	2.8	4.2	6.7	4.1	5.1	-4.6	+133.2	+15.7
Chemicals and related products	154.6	73.1	118.7	138.3	128.9	3.0	4.6	4.8	2.2	4.2	-16.8	+78.3	-7.6
Wheat, including flour	192.3	61.1	19.3	64.0	100.3	3.7	3.2	0.8	1.9	3.3	-47.3	+98.0	+38.2
Fruits and nuts	137.5	77.3	80.6	82.2	99.1	2.7	4.9	3.3	2.5	3.3	-27.9	+28.1	+20.6
Corn	34.1	2.8	5.5	3.9	94.5	0.7	0.2	(1)	0.1	3.1	+177.5	(1)	(1)
Copper, including ore and manufactures	135.4	21.2	50.5	65.0	80.8	2.6	1.3	2.1	2.8	2.6	-52.7	+308.8	-7.3
Aluminum	9.1	7.9	22.1	39.4	68.2	0.2	0.5	1.0	1.2	2.2	+647.4	+753.3	+73.1
Cotton manufactures, including yarn	135.1	45.6	43.7	59.7	57.0	2.6	2.9	1.8	1.8	1.8	-57.9	+23.2	-4.3
Coal and coke	196.2	64.5	56.9	67.4	56.9	3.8	2.8	2.3	2.0	1.8	-47.3	+28.5	-17.0
Packing-house products	202.4	56.9	47.7	42.5	48.0	3.9	3.6	1.7	1.3	1.6	-76.3	-15.5	+12.5
Iron and steel, advanced manufactures	89.6	19.9	37.9	52.1	53.3	1.7	1.3	1.6	1.6	1.4	-51.7	+118.8	-16.0
Sawmill products	110.6	26.3	43.3	63.7	36.7	2.1	1.7	1.8	1.6	1.2	-67.3	+35.7	-33.6
Rubber and manufactures	77.0	18.4	23.4	32.1	27.2	1.5	1.0	1.0	1.0	0.9	-54.7	+68.1	-15.3
Paper and manufactures	37.1	13.3	22.6	31.1	23.9	0.7	1.0	0.9	0.9	0.8	-30.1	+69.1	-18.5
Books and other printed matter	27.1	12.4	19.9	22.8	23.0	0.5	0.8	0.8	0.7	0.8	-15.2	+84.9	+7.7
Photographic and projection goods	31.6	13.5	20.9	22.5	19.9	0.6	0.9	0.9	0.7	0.6	-37.1	+40.7	-11.6
Wood manufactures, advanced	40.9	9.8	15.4	20.3	15.0	0.8	0.6	0.6	0.6	0.6	-61.3	+59.9	-23.5
Tobacco manufactures	18.5	8.9	18.6	13.3	14.4	0.4	0.4	0.4	0.4	0.5	-26.4	+107.8	+8.3
Furs and manufactures	35.7	13.8	19.1	17.9	14.1	0.7	0.9	0.8	0.5	0.5	-60.4	+4.9	-30.9
Fish	29.5	7.7	12.3	13.7	13.8	0.6	0.5	0.5	0.4	0.6	-41.3	+80.2	+0.6
Vegetables and preparations	25.3	7.0	12.2	14.0	13.3	0.5	0.5	0.5	0.4	0.4	-47.4	+75.1	-4.7
Naval stores, gums, and resins	31.2	11.8	18.9	22.1	12.3	0.6	0.8	0.8	0.7	0.4	-80.5	+4.3	-44.3
Leather	42.9	18.2	14.4	17.3	12.1	0.8	0.8	0.7	0.6	0.4	-71.9	+8.3	-30.4
Paper base stock	5.1	2.7	12.9	28.6	11.7	0.1	0.3	0.5	0.7	0.4	+128.6	+330.5	-50.7
All other commodities	581.3	163.1	252.6	344.6	321.0	11.3	10.2	10.4	18.4	10.5	-44.8	+58.8	-6.6

IMPORTS OF MERCHANDISE

Total	4,308.4	1,323.8	2,424.0	3,006.9	1,949.8	100.0	100.0	100.0	100.0	100.0	-55.7	+47.4	-36.7
Agricultural	2,137.4	841.9	1,263.1	1,579.3	965.6	49.5	48.5	51.8	52.8	49.0	-55.3	+48.9	-38.8
Nonagricultural	2,202.0	861.0	1,160.9	1,430.6	984.1	51.4	51.5	48.7	47.2	51.0	-59.0	+48.0	-30.6
Crude materials	1,588.6	558.3	733.0	971.1	578.4	36.4	27.1	30.2	32.3	28.6	-63.0	+60.9	-40.6
Crude foodstuffs	539.8	233.0	248.7	415.3	280.1	12.2	17.6	14.4	13.7	13.3	-51.7	+11.7	-97.1
Manufactured foodstuffs and beverages	423.6	172.9	280.2	440.1	310.7	9.8	13.1	15.9	14.0	13.9	-33.7	+78.6	-29.4
Semi-manufactures	885.1	217.0	490.2	694.2	385.0	20.1	16.4	20.2	21.1	19.7	-56.5	+71.4	-39.3
Finished manufactures	903.8	349.8	405.9	651.3	417.5	22.6	25.7	19.2	16.3	21.4	-59.0	+122.5	-34.3
Coffee	202.4	138.4	194.0	180.6	187.8	4.7	10.9	5.5	5.0	7.1	-54.4	+7.7	-8.6
Onion sugar	200.2	95.7	187.9	106.2	120.4	4.6	2.3	6.6	3.5	8.7	-37.7	+34.8	-21.9
Rubber, crude	241.0	32.6	149.7	247.4	129.5	5.6	2.6	0.6	3.2	8.6	-46.3	+206.0	-47.7
Paper and manufactures	169.4	94.1	112.1	137.1	113.0	3.7	7.1	4.4	4.8	5.5	-30.8	+20.0	-17.5
Silk, raw	427.1	112.9	102.4	104.6	88.5	9.7	3.6	4.2	8.6	4.6	-79.2	-22.0	-16.7
Paper base stock	115.1	54.4	98.9	117.9	85.4	2.7	4.1	4.1	8.0	4.4	-26.9	+53.7	-26.7
Chemicals and related products	147.8	49.1	80.0	102.5	78.0	3.4	3.7	3.3	3.4	4.0	-47.3	+58.8	-23.7
Vegetable oils, extracted	100.7	29.3	88.3	112.0	88.0	2.3	3.2	2.5	3.7	3.0	-41.8	+103.1	-47.7
Wine and spirits	56.0	3.3	75.2	72.7	57.7	(1)	(1)	2.1	2.4	2.0	(1)	(1)	-20.6
Fruits and nuts	36.0	44.2	58.0	67.2	65.1	0.8	8.2	2.4	3.2	2.5	-35.6	+34.5	-19.1
Furs and manufactures	125.9	38.5	81.6	84.2	45.8	2.9	2.3	2.4	3.9	2.4	-53.8	+69.9	-45.6
Tin (bars, blocks, pigs)	91.8	15.5	75.5	104.2	44.9	2.1	1.2	3.1	3.5	2.3	-51.2	+172.3	-87.8
Petroleum and products	144.5	60.9	49.6	44.6	39.5	3.3	4.6	1.7	1.5	2.0	-72.7	-25.2	-11.5
Copper, including ore and manufactures	133.7	21.7	29.9	52.6	37.8	3.1	1.2	1.2	1.7	1.9	-78.4	+69.0	-27.9
Tobacco, unmanufactured	95.8	26.0	20.9	31.9	36.0	2.2	1.7	1.9	1.1	1.8	-43.1	+145.5	+12.9
Olseeds	79.3	16.5	37.0	45.3	34.7	1.8	1.2	1.6	2.1	1.3	-69.3	+110.6	-45.3
Cotton manufactures, including yarn	66.3	27.9	48.7	56.9	31.8	1.5	2.1	2.0	1.9	1.8	-50.0	+24.2	-39.1
Packing-house products	42.8	8.1	31.0	41.7	30.3	1.0	1.7	1.4	1.6	1.6	-29.1	+374.1	-27.2
Hides and skins	137.3	22.6	64.5	51.1	25.3	3.1	0.9	2.2	2.4	1.7	-75.2	+33.6	-67.9
Fish, including shellfish	81.2	21.4	30.4	37.9	25.3	1.8	1.3	1.4	1.4	1.5	-35.7	+33.4	-16.4
Burpee	77.4	14.9	35.4	41.1	28.3	1.8	1.3	1.5	1.4	1.5	-63.4	+57.6	-31.1
Diamonds	55.0	6.0	33.3	46.2	20.6	1.3	0.5	1.4	1.3	1.2	-62.4	+172.2	-55.0
Wool and mohair	37.9	16.9	30.3	32.5	23.5	0.8	2.2	3.2	1.1	1.1	-74.8	+3.2	-70.5
Flax, hemp, and ramie manufactures	45.2	15.7	33.0	33.3	28.1	1.1	1.5	1.4	1.7	1.0	-59.3	+2.4	-38.8
Cocoa or cacao beans	46.5	10.4	23.5	28.2	10.2	1.0	0.9	1.0	0.9	0.9	-61.5	+76.0	-20.8
Sawmill products	25.0	12.6	17.9	21.4	18.3	0.6	0.9	0.9	0.9	0.9	-77.2	+47.0	-14.3
Wool manufactures, including yarn	18.5	12.7	29.6	31.0	17.9	0.4	1.0	1.2	1.1	0.9	-77.2	+39.8	-44.3
Wheat, including that for milling and export	16.2	5.4	18.1	19.5	2.5	0.3	0.4	0.6	0.6	0.5	-84.3	+32.6	-37.1
Grain (corn, oats, rye, barley)	3.8	2.4	26.6	60.0	2.3	(1)	(1)	1.1	2.2	(1)	-82.0	+76.7	-59.5
All other	1,173.3	397.8	674.1	711.3	474.7	26.7	23.3	22.7	23.7	24.4	-58.6	+54.2	-33.3

1 Less than 1/2 of 1 percent.

2 Increase of over 1,000 percent.

3 General imports through 1932; imports for consumption, 1934-38.

4 Minor items representing about 5 percent of the agricultural imports in 1936 are omitted from this figure.

In many instances, however, the shifts among non-agricultural commodities in 1938 were toward lower levels; and exports of nonagricultural products, as a group, declined from \$2,501,446,000 in 1937 to \$2,229,195,000 in 1938. The value of this group of commodities in the former year was the largest recorded since 1930; but 1938 exports of iron and steel scrap, steel-mill products, lumber, automobiles, electrical apparatus, lubricants, rubber manufactures, chemicals, and many miscellaneous products were valued at less than in 1937. The downward trend in manufactured exports was marked in the second and third quarters of 1938; and, despite the considerable recovery recorded in the fourth

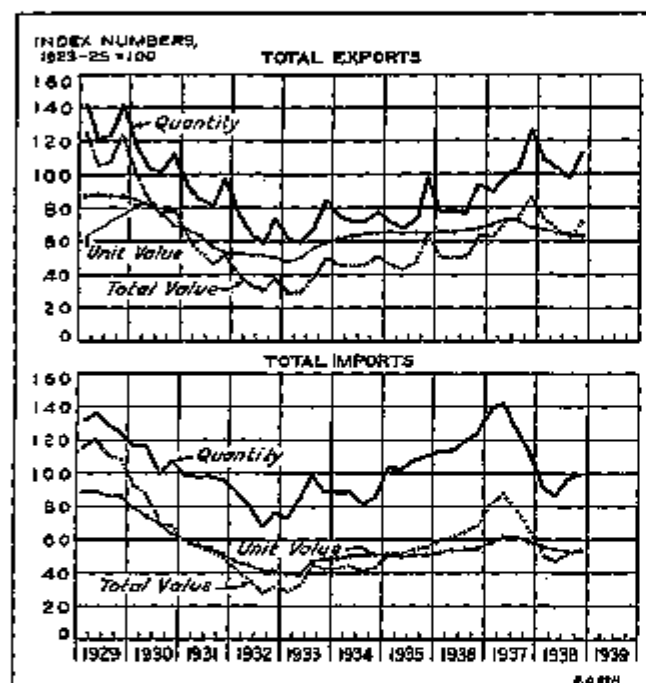


Figure 19.—Indexes of Changes in Quantity, Unit Value (Price) and Total Value of Exports of United States Merchandise, and Imports for Consumption, by Quarters, 1929-38 (U. S. Department of Commerce).
NOTE.—Indexes for imports are based upon "general imports" prior to 1934.

quarter, these exports, as a group, were smaller in volume and value than in the year 1937.

Imports Reduced About a Third.

General imports into the United States, valued at \$1,960,528,000 in 1938, were 36 percent less in value and about 29 percent smaller in volume than in 1937. Importations of practically all leading commodities were much smaller in 1938 than in 1937, and the decreases in crude materials and farm products were substantial. Only one commodity (coffee) in a list of over 30 was imported in larger quantity in 1938 than in 1937.

The decline in import trade began about June of 1937, coincident with the unsettlement which was developing in domestic business, although the movement was influenced by the large United States production of grain in 1937. Imports of agricultural commodities,

such as grains and feeds, which were imported in large quantities during the greater part of 1937 as a result of the 1936 drought, fell to negligible figures after the 1937 crops became available. The decline in imports deepened in the opening months of 1938 by reason of reductions in crude materials, tropical foodstuffs, vegetable oils, and manufactured articles; and the total import volume, which in the first half of 1937 exceeded the 1929 figures, was reduced by 37 percent in the first half of 1938. Although imports in many classes of commodities recovered moderately during the latter half of 1938 as domestic business improved, the volume of total imports for the year was about 28 percent smaller than in 1929 and only 20 percent above the low volume of 1932. In 1937, the total volume of imports was only fractionally less than the record total of 1929 and was 65 percent above the 1932 low.

Balance of Trade

Exports in each month of 1938 were much larger in value than imports. The net excess of merchandise exports over merchandise imports amounted to \$1,133,567,000 for the year, the largest export balance in our foreign trade since 1921. Although there is usually an excess of merchandise exports in the trade during the second half of the year, the large export balance in the first half of 1938 was in marked contrast with the small balance that is usual for the first half of the year.

Foreign Trade and Domestic Industry

A considerably larger share of the total production of movable goods of the United States was exported in 1938 than in other recent years. While figures are not available for calculating the exact proportion of production which was exported, the data at hand indicate that the ratio rose from 6.8 percent in 1933 and 7.8 percent in 1937 to approximately 9 percent in 1938. The 1938 ratio was thus only one point lower than the 10 percent of production annually exported in the period from 1925 to 1929.

Foodstuffs, Tobacco, and Cotton.

The increase in the quantity of foodstuffs exported in 1938 was partly responsible for the rise in the proportion of our total production of movable goods exported. In the year ended June 30, 1937, there was exported 12 percent of our production of wheat (as compared with 3 percent in the preceding year) and 4 percent of our corn production. Exports of corn are usually a negligible proportion of the large United States production. As between the same 2 years, the proportion of rice exported rose from 4 percent to 21 percent, and that of oranges from 5.6 percent to 8.8 percent. Although foreign markets continued to absorb large shares of our cotton and tobacco production (approximately 30 percent of each), the proportions in 1938 were lower than usual. That for tobacco stands

in comparison with 33 to 36 percent in several preceding years, even though the exported quantity increased in 1938. Exports of cotton are usually equivalent to 50 percent or more of the annual production; but in 1937-38, shipments to foreign countries continued relatively small, whereas the cotton yield in that year was unusually large. The production and exports of cotton over a period of 20 years are shown in figure 12 on page 20.

Manufactures and Mineral Products.

A larger share of the production of a number of manufactured and mineral products was exported in 1938 than in 1937. Included in this group are automobiles, for which the ratio of exports to production rose from 10 percent in 1937 to 14 percent in 1938. Figures are not available to compute the share of machine tools exported for the year, but in the first half of 1938 over half of the machine-tool orders were from foreign sources, compared with about one-fourth of a much larger total volume a year before. Among the other commodities showing an increase in the ratio of exports to production were: Gasoline, fuel oil, copper, and airplanes.

United States in World Trade

Total exports of all countries in 1938 were smaller in value than in the preceding year. The percentage decrease in the value of United States exports was less than the decrease in world trade; consequently, the United States share in world export trade advanced.

The United States retained in 1938 its usual position among the nations as the leading exporter. In comparison with the total of \$3,057,000,000 recorded for exports of United States merchandise, exports of the domestic goods of the second leading exporter—the United Kingdom—were considerably less. In world import trade, however, the share of the United States declined in 1938.

Geographic Distribution of Trade

Exports.

Although decided changes occurred in the exports of individual commodities to each country as compared with 1937, the value of total exports to many countries in 1938 closely approximated or slightly exceeded the 1937 total. This was true of shipments to the United Kingdom, the Netherlands, the Scandinavian countries, and the Union of Soviet Socialist Republics, among the countries of Europe. These countries of northwestern Europe purchased smaller amounts of our cotton and metals in 1938 than in 1937, but increased their purchase of United States grain, fruits, and tobacco. Exports to the Union of Soviet Socialist Republics showed an increase of nearly two-thirds in 1938, mainly by reason of that country's large purchases of metal-working and other industrial machinery. Though exports to the other leading countries of Europe—

namely, Belgium, France, Germany, and Italy—were considerably smaller in value in 1938 than in 1937, the Continent of Europe received about 43 percent of the total exports from the United States. In 1937 shipments to Europe constituted 40.8 percent of total exports.

British countries.—Exports to Canada and other British Empire countries outside the United Kingdom were smaller in value in 1938 than in 1937; the percentages of decrease ranged from 6 percent for Australia and

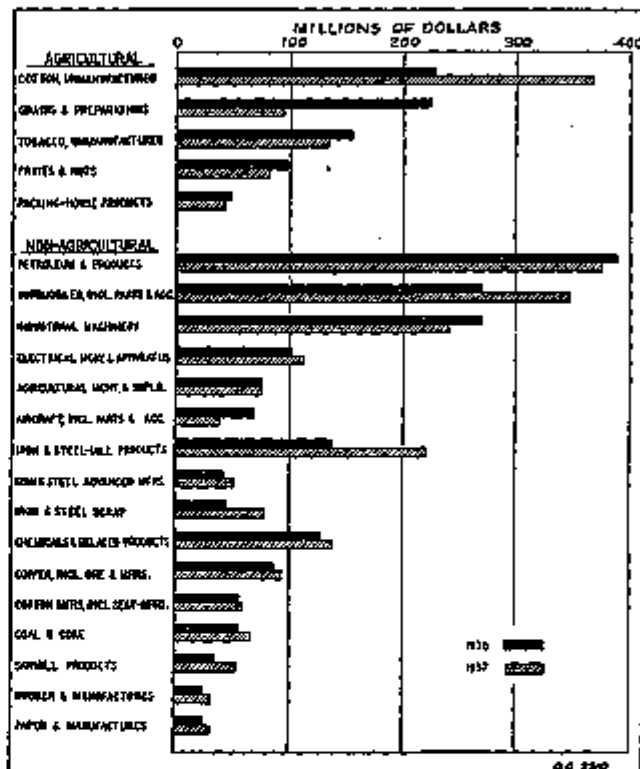


Figure 26.—Exports of Leading Agricultural and Nonagricultural Commodities for 1937 and 1938 (U. S. Department of Commerce).

8 percent for Canada to 20 percent for British South Africa. The 1937 exports to South Africa were, however, much in excess of the 1929 value; and the 1938 exports, despite the decline, continued larger than in that earlier year. Taken together, the five leading countries of the British Empire (the United Kingdom, Canada, Australia, British India, and South Africa) received 37.4 percent of the total exports from the United States in 1937 and 37.7 percent in 1938.

Latin America, Netherlands Colonies, and Western Asia.—The other principal regions to which exports in 1938 showed an increase or a less-than-average decrease compared with 1937 included South America, Central America, the colonies of the Netherlands, and western Asia. Exports to some countries within these areas were larger in value, but to others smaller, than in 1937. Oil-field equipment and refinery machinery were the principal items of increased shipment to the oil-producing countries of these areas; and exports of other types of industrial machinery and of automobiles to South

America continued generally large. Although Mexico curtailed its purchases in the United States by two-fifths in 1938, and while Cuba's purchases were lowered by nearly one-fifth, Latin America remained the second-largest market for United States merchandise. Approximately 18 percent of the total exports of United States merchandise was shipped to the countries south of us in 1938, as compared with 19 percent in 1937.

Far East.—The Far East was the principal area to which exports decreased substantially in value in 1938. Shipments of many products dropped lower in comparison with the large quantities recorded for the preceding year, but lower prices, especially of cotton and scrap iron, contributed to the reduction in value. The principal commodities exported to this area in smaller quantity than in 1937 included steel scrap, pig iron, iron and steel-mill products, lumber, and passenger automobiles. Exports of a number of products, including motor-trucks, aircraft, metal-working machinery, copper, and crude petroleum, were larger in both quantity and value in 1938. Shipments of raw cotton to the Far East (Japan, China, Hong Kong, and Kwantung) amounted to 1,145,000 bales (500-pound), which represented a gain of 20 percent over the low exports in 1937, but a decrease of 20 percent in comparison with the shipments in 1936 and of 50 percent as compared with the annual average for the period 1931-35.

Imports.

Although imports from practically all countries were smaller in value in 1938 than in 1937, there was a wide variation between countries in the extent of declines. Imports from Argentina, which furnished the United States large amounts of corn and unusually large amounts of raw wool in 1937, were barely three-tenths as large in value in 1938; those from Australia, which consist mainly of wool, undressed furs, and hides and skins, were about one-fifth as large as in 1937. These

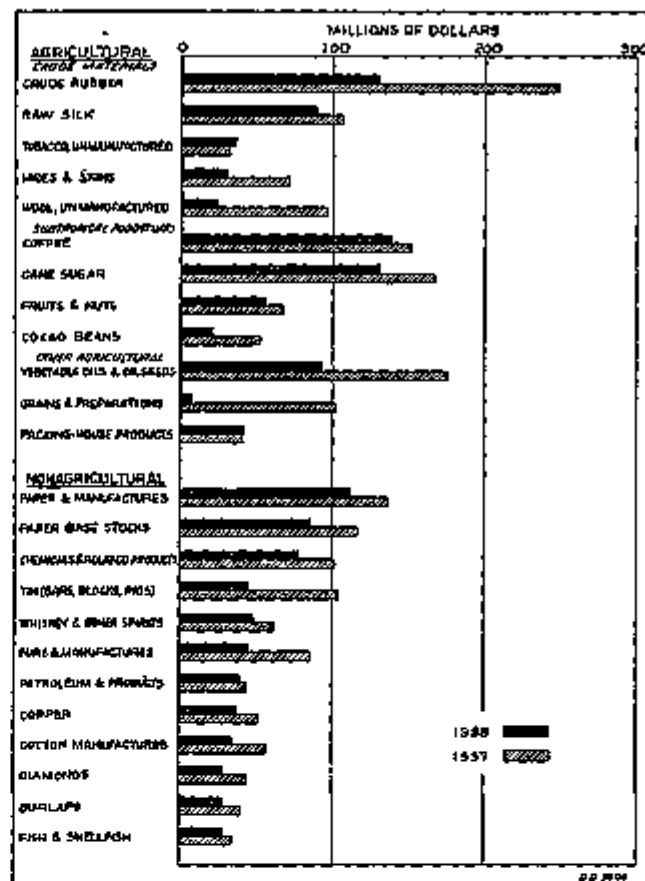


Figure 21.—Imports of Leading Agricultural and Nonagricultural Commodities for 1937 and 1938 (U. S. Department of Commerce).

sharp declines resulted to some extent from the lower prices in 1938, but for the most part represented smaller quantities imported. In the imports from British Malaya (which decreased more than one-half as compared with 1937), smaller shipments of crude rubber and tin and the lower prices in 1938 contributed to the reduction.

Foreign Trade in Merchandise by Trade Regions and Principal Countries

Trade region and country	Exports, including reexports					Percent increase (+) or decrease (—) 1938 from—			General imports					Percent increase (+) or decrease (—) 1938 from—		
	Millions of dollars								Millions of dollars							
	1929	1932	1936	1937	1938	1929	1932	1937	1929	1932	1936	1937	1938	1929	1932	1937
Total.....	5,241.0	1,611.0	2,456.0	3,340.2	3,096.1	-41.0	+92.1	-7.0	4,200.4	1,222.8	2,422.0	3,083.7	1,000.5	-65.4	+16.2	-30.4
Europe, total.....	2,244.3	784.3	1,042.6	1,350.6	1,326.0	-43.4	+49.0	-2.5	1,233.7	289.0	717.5	843.3	567.1	-57.5	+15.6	-32.3
Belgium.....	114.9	40.3	58.9	65.3	75.9	-58.0	+91.0	-19.2	74.0	21.9	58.9	75.1	41.7	-43.7	+90.1	-44.5
France.....	265.6	111.6	129.6	184.3	132.6	-40.0	+43.0	-18.7	171.6	44.7	65.2	75.6	64.1	-68.5	+26.6	-26.5
Germany.....	115.8	194.6	104.5	126.3	107.0	-74.1	+20.0	-14.9	288.9	78.2	92.5	94.6	64.6	-75.8	+16.3	-30.2
Netherlands.....	129.3	43.3	63.3	63.3	64.3	-24.0	+113.9	+3.5	63.9	22.4	50.0	53.3	31.4	-62.0	+39.9	-41.1
United Kingdom.....	849.0	289.3	440.1	536.6	621.1	-38.6	+60.7	-2.0	320.8	75.8	202.7	232.7	112.2	-64.1	+58.4	-41.7
U. S. & R. (Russia, Europe, and Asia).....	85.0	12.6	23.4	42.0	30.7	-18.6	+431.3	+92.6	22.6	9.7	20.6	30.8	24.1	+6.7	+147.2	-21.8
Northern North America, total.....	961.6	245.7	391.0	519.1	475.5	-60.5	+43.6	-8.4	614.4	181.4	381.3	407.4	307.8	-28.0	+47.6	-34.3
Canada.....	945.4	241.4	384.2	500.3	467.7	-50.7	+43.8	-8.2	603.6	174.1	376.6	392.2	296.3	-28.3	+49.6	-34.7
Latin America, total.....	972.0	215.8	429.4	630.4	664.2	-42.8	+161.6	-11.8	1,156.0	306.0	629.6	705.1	485.4	-66.1	+35.6	-31.2
Mexico.....	133.0	31.9	78.0	180.6	62.0	-53.7	+94.5	-48.3	177.7	37.4	48.0	60.1	46.0	-69.4	+31.0	-18.5
Cuba.....	128.0	26.6	67.4	92.3	76.3	-40.8	+165.4	-17.3	207.4	58.3	127.5	148.0	105.3	-49.0	+41.6	-23.5
Argentina.....	210.3	31.1	66.9	94.2	86.8	-58.7	+178.7	-7.0	177.6	15.6	69.0	138.0	40.7	-65.4	+168.0	-70.7
Brazil.....	103.8	23.8	49.0	68.6	62.0	-43.0	+118.0	-6.7	207.7	82.1	102.0	120.6	67.9	-62.6	+19.2	-18.8
Chile.....	55.8	3.6	16.7	24.0	24.6	-55.0	+680.5	+2.5	102.0	12.3	23.8	45.7	28.3	-72.3	+130.0	-59.6
Colombia.....	49.0	10.7	27.7	30.3	30.0	-16.6	+283.2	+4.3	103.5	80.9	43.1	52.3	49.4	-62.3	+18.8	-5.8
Asia, total.....	639.8	292.3	308.0	580.0	516.7	-19.3	+76.8	-16.9	1,279.2	381.6	607.3	680.3	580.4	-35.6	+67.4	-41.1
British India.....	55.4	24.9	26.8	43.7	35.8	-35.4	+43.5	-15.3	149.3	33.2	70.3	95.9	58.6	-60.8	+70.4	-38.0
British Malaya.....	14.0	2.5	5.0	8.8	8.8	-26.5	+234.6	+4.3	339.2	24.8	108.0	242.9	112.2	-53.1	+232.6	-53.5
China.....	134.2	55.2	48.3	40.7	24.8	-72.0	-38.1	-30.0	166.2	26.2	74.2	103.0	47.2	-71.6	+80.2	-64.5
Japan.....	250.1	134.9	204.3	288.6	239.6	-7.6	+77.0	-17.0	431.0	134.0	171.7	204.2	128.8	-70.7	+5.4	-37.9
Oceania, total.....	103.0	38.8	79.2	98.8	93.4	-51.4	+154.0	-5.6	60.8	7.7	36.0	68.4	18.2	-71.4	+110.7	-78.3
Africa, total.....	136.6	90.0	114.2	152.2	118.3	-10.4	+228.8	-22.3	108.6	24.2	61.4	92.1	64.7	-40.7	+125.5	-40.7
British South Africa.....	63.8	16.0	71.2	90.2	71.8	+12.5	+349.0	-20.5	9.7	2.4	7.7	19.0	19.0	+99.4	+68.7	(?)

1 Austria included in all years shown.

2 Increase of less than one-tenth of 1 percent.

Imports from those areas of the world which furnish tropical foodstuffs to our markets showed more moderate decreases in value than those from other areas. Among the countries of the Caribbean area, the decrease of 6 percent in imports from Colombia was largely accounted for by the decline in coffee prices. The decrease of 29 percent in the value of imports from Cuba was accounted for in large part by the low price of sugar.

The Reciprocal Trade Agreements Program

With the conclusion of the trade agreement between the United States and the United Kingdom in November 1938, the Reciprocal Trade Agreements Program assumed greater importance as a trade-enlarging influence. At the same time, a second agreement with Canada was signed, superseding the first; and agreements were also concluded in 1938 with Ecuador and Czechoslovakia. The 19 countries (together with their colonies) with which reciprocal trade agreements were in operation at the beginning of 1939 account for approximately 60 percent of the total foreign trade of the United States.

The trade agreement between the United States and the United Kingdom covers not only the trade between these two countries, the largest trading countries in the

world, but also the trade of the United States with Newfoundland and the non-self-governing British Colonies. The United Kingdom is generally the largest market for our exports and ranks among the three leading countries as a source of our imports. The trade with some of the more than 50 British Colonies to which the agreement relates is also large.

The second agreement with Canada, which supersedes the first agreement of January 1, 1936, enlarges the undertakings by each Government, since the experience of both countries under the first agreement is generally considered to have been satisfactory. In recent years, Canada has closely followed the United Kingdom as the best customer for our exports, taking about one-seventh of the total. Canada is the leading supplier of United States imports.

The trade agreement with Czechoslovakia, which was signed March 7, 1938, was in effect for only a relatively short period before the separation of the Sudeten area, and it is not yet possible to appraise the effects of this change. The agreement with Ecuador should strengthen our favorable trade position in that country and provide opportunities for expansion.

During 1938, announcements were made of the intention to negotiate agreements with Turkey, Venezuela, and a supplemental agreement with Cuba.

Labor Conditions

Employment and Pay Rolls

TOTAL nonagricultural employment¹ underwent relatively small variations from February through July, following the marked decline recorded from September 1937 to January 1938. Subsequent to July, employment increased; and by December about 1,200,000 persons had been returned to private employment in the industries covered by the monthly statistics. This gain in the number at work canceled more than one-third of the loss recorded during the 1937-38 decline.

The number of persons engaged in nonagricultural pursuits reached a recovery high of 35.1 million in September 1937, according to data compiled by the Bureau of Labor Statistics. By January of last year the total was reduced to 32.2 million, and by July a further decline of about 400,000 was recorded. In the next 5 months the number at work increased to almost 33 million. While the gain represented a significant improvement over the 1938 low, the total in December was 6 percent under that in September 1937 and 11 percent below the 1929 high. These employment estimates cover all persons engaged in gainful work outside of agriculture, including self-employed and casual workers, but exclude those employed on projects of the Works Progress Administration and other emergency relief projects. (See fig. 22.)

Compensation of employees also reached a recovery high in August 1937, when this Bureau's seasonally adjusted index² was 90.8 (1929=100). The subsequent contraction in business activity lowered the index to 79.4 in June 1938, from which it recovered to 86.3 by the last month of the year.

Unemployment increased materially during the latter part of 1937, and a further small rise was recorded during the first half of 1938. In the last 6 months of the year a considerable reduction was effected, but the volume of unemployment was still high at the end of 1938. The number of unemployed remained well above that of September 1937, when the total without private employment was only a little more than half that of March 1933. The gain in the volume of employment since the low in March 1933 has been much larger than the reduction in the number of unemployed by reason of the increase in the labor force. The unemployment figures include persons engaged in both agricultural and nonagricultural pursuits, but consider as unemployed those engaged on emergency relief projects financed from public funds, such as the Works Progress Administration and the Civilian Conservation Corps. The

correspondence between the movements of the number of unemployed and the number of relief cases is shown in figure 27. It should be noted that relief cases, as given in this chart, refer to the number of families plus the number of single persons receiving general relief. The upper curve in figure 25 represents the total number of persons receiving aid through direct relief and work programs. Further details regarding the differences in these two sets of data are given in the notes accompanying the charts.

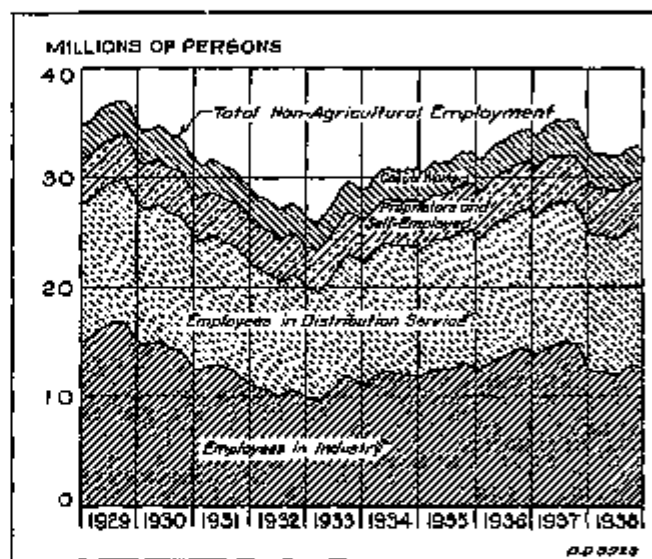


Figure 22.—Total Nonagricultural Employment, 1929-38 (U. S. Department of Labor).

¹ Includes trade, finance, service, and miscellaneous industries, and Government, education, and professional services.

² Includes manufacturing, mining, construction, transportation, and public utilities.

Factory employment averaged 18 percent lower in 1938 than in 1937, and pay rolls were reduced about 24 percent, according to Bureau of Labor Statistics data for 87 manufacturing industries. The seasonally adjusted index moved lower during the first half of the year, but the rate of decline was less severe than that which was recorded in the last 5 months of 1937. In July, employment turned upward, and by December the adjusted index reached 91.4 (1923-25=100). This indicated a level of employment about 11 percent above the low for the year, and a decline of 16 percent from July 1937, when the adjusted index was the highest since 1920. During the 1937-38 recession, factory pay rolls (without seasonal adjustment) dropped more than one-third to 70.6 (1923-25=100) in July, but subsequently increased to 86.6 in December. The December factory pay-roll index was more

¹ Data relating to nonagricultural employment have been revised but the figures were not available in time for inclusion in this issue of the Survey.

² For a more detailed discussion of income payments see the Introductory Review.

than 2 points above the figure for the corresponding month of the preceding year, while the factory employment index was nearly 4 points lower.

The index for employment in the durable-goods industries averaged about 77 in 1938 (1923-25=100), while that for nondurable-goods industries averaged 96. The declines from 1937, when the two indexes were at about the same level with relation to the base period, were 26 percent and 11 percent, respectively. Among the durable-goods producers, employment declines were particularly marked in transportation equipment and in the machinery and iron and steel industries. Among the individual lines in these major classifications, the decreases in average employment for the year ranged as high as 40 percent, which was reported by plants manufacturing automobiles and by those making radios and phonographs.

Other than rubber manufacturing, where operations are to a considerable degree influenced by the trend of automobile assemblies, the largest decline in employment among the nondurable-goods industries (14 percent) was reported for the textile-fabrics and wearing-apparel industry. Manufacturers of food and kindred products employed 5 percent fewer workers on the average than in 1937, when the number at work was larger than in any other year.

In those nonmanufacturing industries for which data are available, the declines in employment and pay rolls in 1938 as compared with 1937 were small, except in the mining industries. The largest decline was that reported for metalliferous mines, in which the number at work was reduced about one-fourth, and the amount of pay roll about one-third. Anthracite and bituminous coal mines each reported declines of 13 percent in employment and about one-fifth in pay rolls in 1938 as compared with the preceding year. Public-utility employment averaged about 3 percent lower than in 1937.

Employment in the electric-railroad and motorbus operation and maintenance industries was 4 percent lower in 1938 than in the preceding year, and the electric light and power and manufactured gas and the telephone and telegraph industries reported slightly smaller average declines. Pay rolls were practically unchanged except for the telephone and telegraph companies, for which a small gain was reported. Changes in employment and pay rolls were likewise small in retail and wholesale establishments, the largest employment decline being one of 6 percent reported in retail general-merchandising stores. For these, pay rolls were about 4 percent under 1937.

Average Hours and Earnings.

Average weekly earnings in factories were lower in 1938 than in 1937, by reason of the reduction in hours worked per week; average hourly payments showed only minor changes during the year, and averaged slightly higher than in 1937. (See fig. 23.)

According to data compiled by the Bureau of Labor Statistics for 87 manufacturing industries, hourly rates in 1938 averaged about 64.6 cents, slightly above the previous record established in 1937. In 1937, hourly earnings rose steadily from 59.6 cents in January to 63.7 cents in November. In 1938, on the other hand, the rates declined from 66.3 cents in January to 62.9 cents in August, and thereafter recorded a gain of 1.6 cents. The Fair Labor Standards Act became effective October

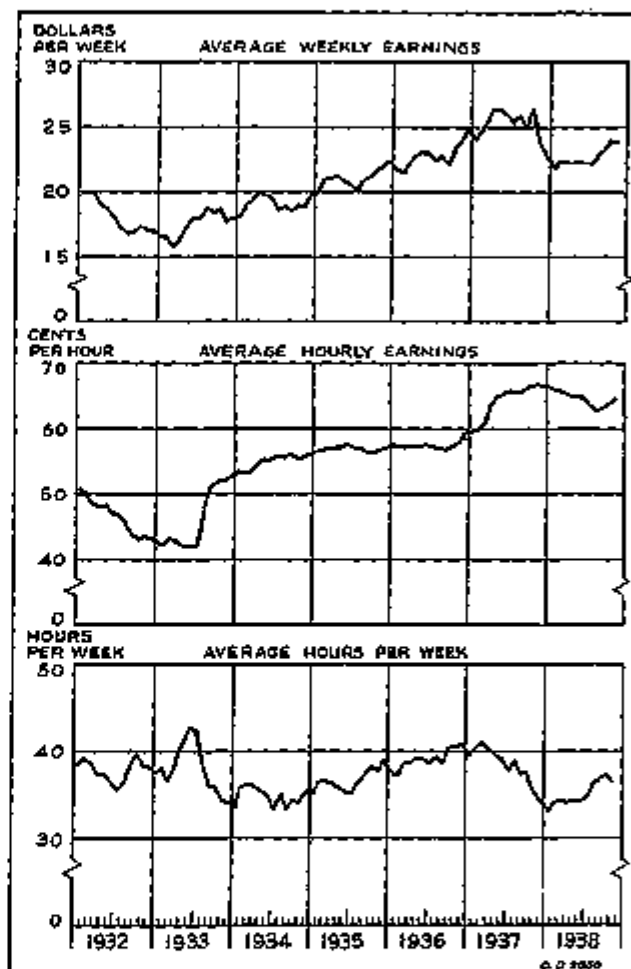


Figure 23.—Wages and Hours in Manufacturing Industries, 1932-38 (U. S. Department of Labor).

NOTE.—Data for December 1938 were not available in time to include them in this chart. The figures used for this chart prior to July 1938 are not strictly comparable with those subsequent to that date due to the exclusion of data for "railway repair shops," beginning with July 1938. The resulting distortion is believed to be small.

24, and the minimum wage provisions in the act may have been a factor in the slight upturn in hourly rates in November.

The factory work-week averaged about 35.4 hours in 1938, as compared with 38.5 hours in 1937. These figures of the Bureau of Labor Statistics are available only since the beginning of 1932, but similar information compiled by the National Industrial Conference Board indicates that the 1938 average was the lowest on record.

Average hours worked per week reached 41.0 in March 1937, the highest figure in recent years except

for a brief period in the middle of 1938, when factory operations were stepped up prior to the introduction of the N. R. A. codes. Beginning in the second quarter of 1937, the work-week declined rapidly to 33.2 hours in January 1938. Subsequent improvement in factory operations resulted in a cancellation of more than one-half of this decline by October. A small reduction was recorded in November, which may have resulted in part from the establishment of maximum hours under the Fair Labor Standards Act. As a result of the reduction in weekly hours from 1937 to 1938, average weekly earnings in factories declined 10 percent to \$22.70.

Nonmanufacturing industries in most instances reported increases in hourly rates in 1938. These ranged as high as 5.5 percent, the increase reported for anthracite mining. Metalliferous mines reported a decline of 3.1 percent. In anthracite mining, telephone and telegraph, laundries, and electric-railroad and motorbus operation and maintenance, new monthly highs were recorded during 1938. Average weekly hours worked declined from 1937 in each of the nonmanufacturing industries, although in the case of telephone and telegraph and of electric light and power and manufactured gas, the reduction was negligible.

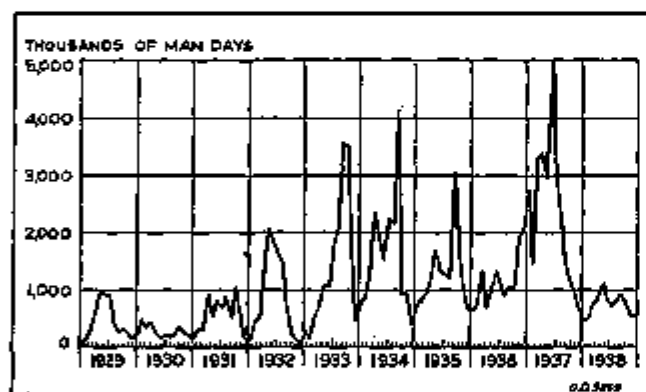


Figure 24.—Number of Man-Days Idle During the Month as a Result of Strikes, 1929-38 (U. S. Department of Labor).

Industrial Disputes.

Labor disputes in 1938 were less frequent than in 1937, and the amount of time lost from work was much smaller. A total of 2,360 strikes was reported during the year, or only about one-half the number reported in 1937. Workers involved numbered about 630,000 and man-days idle 8,964,000, as compared with 1,861,000 and 28,425,000 in the preceding year. Man-days lost per strike averaged 3,798, or 14 days idle per worker in 1938, as compared with 5,997 and 15, respectively, in 1937. In May, strikes in the textile industries and in food and kindred products resulted in the loss of 323,000 man-days; and in September, several important strikes occurred in San Francisco department stores and in the trucking industry serving New York City, New Jersey, and the mid-West.

The monthly trend of man-days idle since 1929 is depicted in figure 24. In 1938, the number of man-days

lost exceeded 1 million in only a single month, as compared with a maximum of nearly 5 million in 1937.

Social Security

The third anniversary of the signing of the Social Security Act was passed in August 1938; and in the period of nearly 3 years since Federal funds first became available for its operation, the Federal Government and the States have made notable progress in implementing its provisions. By the end of the year, two or more of the four Federal-State programs for unemployment compensation and public assistance had been inaugurated in all 48 States and in Alaska, Hawaii, and the District of Columbia. Nation-wide facilities had been established for the operation of the federally administered old-age insurance program. Health and welfare services for which the act makes provision had also been established on a substantially Nation-wide basis.

Financial Operations.

As of December 31, 1938, the cumulative total of Federal grants to the States under the Social Security Act, on the basis of checks paid by the Treasury Department, was \$628,836,500, of which \$302,298,700 represented checks paid during the calendar year 1938. Checks paid during 1938 included grants for the several programs as follows: Old-age assistance, \$196,105,400; aid to dependent children, \$28,443,100; aid to the blind, \$5,066,900; maternal and child-health services, \$3,755,900; services for crippled children, \$2,898,300; child-welfare services, \$1,635,600; public-health work, \$7,998,200; administration of State unemployment compensation laws, \$56,395,400.

Federal taxes collected under title IX of the act, which applies to employers of eight persons or more, amounted to \$88,745,400 during 1938. Receipts from taxes on pay rolls (of 1 percent each from employers and employees, under title VIII of the act) amounted to \$473,527,400 during the year. A total of \$343,000,000 was transferred to the Old-Age Reserve Account in the Treasury Department from appropriations available during the year. These transfers, together with investment of interest, brought the total amount of investments in the account to \$862,300,000 as of December 31, 1938.

Old-Age Insurance.

By the end of 1938, more than 42.5 million employee account numbers had been issued under the old-age insurance program. More than 37 million individual wage reports for each half of the calendar year 1937 had been received, and the amounts reported had been posted to the employee accounts. Reported wages in covered employment in that year amounted to more than \$28,000,000,000. It is estimated that wage items reported for 1937 relate to wages received for part or all of that year by more than 32 million individuals.

Payments aggregating more than \$10,477,700 were certified by the Social Security Board in settlement of claims for lump sums payable under the old-age insurance program in 1938; these lump-sum payments to eligible workers reaching age 65 and to the estates or relatives of covered workers who have died are the only benefits now payable under the program.

Unemployment Compensation.

By the end of 1938, unemployment benefits were payable in 30 States and in the District of Columbia. During the year, regular weekly benefits amounting to about \$393,668,000 were paid to approximately 3½ million unemployed workers in these States for varying periods of total and partial unemployment. Benefits will become payable in the remaining States during 1939. It is estimated that some 27.6 million workers are covered under the Federal-State unemployment compensation system. As of December 31, 1938, assets held in the Unemployment Trust Fund in the United States Treasury Department amounted to nearly \$1,085,000,000. This amount represents total deposits and interest credited to the accounts of 48 States, Alaska, Hawaii, and the District of Columbia, less sums withdrawn for benefit payments by the 31 jurisdictions in which benefits were payable during part or all of 1938. Receipts of the fund during 1938 amounted to approximately \$836,000,000, while withdrawals aggregated about \$403,800,000.

Public Assistance.

All 48 States, the District of Columbia, Alaska, and Hawaii were participating in the Federal-State program for old-age assistance at the end of 1938. In December of that year, approximately 1,783,000 recipients were being aided under the program, at an average monthly payment per recipient of \$19.55. Total obligations incurred from Federal, State, and local funds for payments to recipients under the program during 1938 amounted to approximately \$390,853,000.

Aid was provided for December on behalf of more than 650,000 dependent children in nearly 265,000 families in Hawaii, the District of Columbia, and the 40 States having plans approved by the Social Security Board and receiving Federal funds under the program. The average payment per family for that month was \$32.58. Obligations incurred during the year for payments to recipients amounted to about \$93,300,000.

There were about 42,800 recipients of aid to the needy blind in December in Hawaii, the District of Columbia, and the 40 States having approved plans in operation for that month. The average payment per recipient was \$23.35. Obligations incurred for payments to recipients under the program amounted to about \$10,978,000 for the year.

Future Developments in Social Security.

Recommendations for far-reaching changes in the provisions of the Social Security Act relating to old-age insurance were presented in December 1938 by the Advisory Council on Social Security, a group composed of representatives of employers, employees, and the general public, which was appointed by the Social Security Board and the Committee on Finance of the United States Senate. The recommendations of the Advisory Council called for extension of coverage to groups now excluded and for important changes in the benefit structure, including earlier payment of monthly retirement benefits. The Council also made a number of recommendations with regard to the financing of the system, urging that no change be made in the tax schedule until after the rates provided for 1940 have gone into effect and that provision be made for governmental contributions to the system.

The Social Security Board brought to completion in 1938 studies of a number of questions relating to possible revisions in the Social Security Act, and particularly to extensions of the program which President Roosevelt had requested the Board to consider. These studies resulted in recommendations calling for immediate extension of coverage under the unemployment compensation and old-age insurance programs to certain groups in employments now excluded, and further extensions at an early date to other types of employment; beginning of monthly retirement benefits in 1940, instead of 1942 as now provided; provision for supplementary benefits to aged dependent wives of annuitants under the old-age insurance program, and for benefits to certain survivors; increase in Federal grants for aid to dependent children to 50 percent of the amounts spent for this purpose in States with plans approved by the Social Security Board; and provision for requiring the establishment and maintenance of personnel standards on a merit basis in State programs for which Federal funds are granted under the Social Security Act. The Board's recommendations on these questions were incorporated in a report presented to the President and the Congress early in 1939. The report included an endorsement of the recommendations for a national health program which were developed by the Technical Committee on Medical Care, of the President's Interdepartmental Committee to Coordinate Health and Welfare Activities, for presentation to the National Health Conference in July 1938.

Relief

In 1938, as in each year since 1935, the relief that was provided may be divided into three main classifications: (1) work opportunities for the unemployed provided through the Works Progress Administration, the Civilian Conservation Corps, the National Youth Administra-

tion, and other Federal agencies conducting emergency work programs; (2) aid to the aged, blind, and dependent children, provided under the public-assistance program of the Social Security Board (discussed above); and (3) assistance provided under the general relief programs of the various States and localities.

The effect of the decline in business activity which began in the fall of 1937 and extended through the first half of 1938 was reflected in the relief statistics for the year 1938. Largely as a result of improved business conditions in the early part of 1937, the estimated number of households receiving relief and employment on Federal work programs declined to

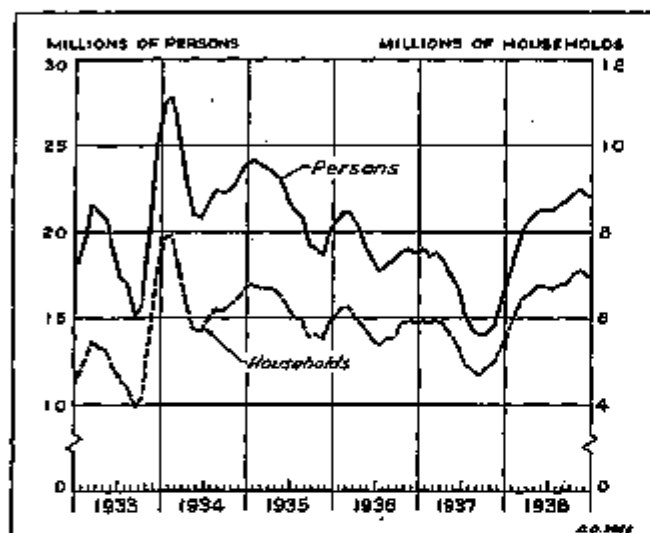


Figure 25.—Households and Persons Receiving Aid Through Relief and Work Programs, Continental United States, 1933-38 (Works Progress Administration).

NOTE.—Data are estimates of the total net number of households and of persons receiving relief, work-program employment, and emergency employment. The programs included are: General relief, rural rehabilitation, transient relief, rural relief grants (Farm Security Administration), student aid, old-age assistance, aid to dependent children, aid to the blind, Civilian Conservation Corps, Civil Works Administration, Works Progress Administration, and other Federal agency projects operated with Emergency Relief Administration Act funds, projects of the Bureau of Public Roads, Public Works Administration Federal and non-Federal projects, and Reconstruction Finance Corporation self-liquidating projects. Rural rehabilitation loans under the Farm Security Administration are excluded.

4,689,000 in September 1937. It is estimated that these households included 13,993,000 persons. The number of such households receiving aid rose steadily during the remaining months of 1937, and in November 1938 reached a peak of 7,089,000 households representing 22,437,000 persons. (See fig. 25.) The largest expansion occurred in the work programs of the Federal Government designed to provide assistance to the able-bodied unemployed in need of relief.

Federal Work Programs.

The present Federal work program originated under the Emergency Relief Appropriation Act of 1935, which provided for the inauguration of an extensive program of public work to furnish jobs to employable persons. The Federal agencies designated to play a part in this

program included the newly created Works Progress Administration, various emergency agencies, and many Bureaus of the regular Departments. Employment under this joint program reached a peak of approximately 3,840,000 persons during the latter part of February and early March of 1936. Of this total, about 78 percent were employed by the Works Progress Administration. (See fig. 28). Subsequent improvement in business conditions throughout 1936 and the first half of 1937 made possible a steady reduction in the number at work under these programs, and employment totals reached a low point of 1,951,000 for the week of September 25, 1937. Of this total, 1,451,000

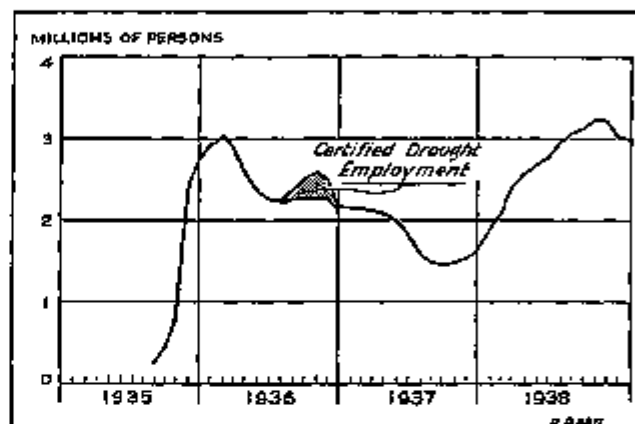


Figure 26.—Total Number of Persons Employed on Works Progress Administration Projects for the Last Week in Each Month for the United States, Including Territories, 1935-38 (Works Progress Administration).

NOTE.—Figures for the year 1938 do not include employment on Federal agency projects financed by transfer of Works Progress Administration funds under the Emergency Relief Administration Act of 1938. Data for certified drought employment are included in the total number of persons.

were working on Works Progress Administration projects. The decline in business activity which began in the fall of 1937 resulted in increases in Works Progress Administration and other Federal emergency employment, and a total of 3,424,000 was reached for the week of June 25, 1938. Works Progress Administration employment for that week was 2,767,000, Civilian Conservation Corps employment was approximately 302,000, and the employment of all other Federal employment-giving agencies totaled 354,000.

The Works Progress Administration continued during the latter part of 1938, as it had done since 1935, to play the major role in furnishing emergency employment. The average employment on projects operated under the Works Progress Administration was 3,188,000 during the month of October and 3,245,000 in November. Latest estimates indicate that average employment under the Works Progress Administration was 3,059,000 during December 1938. Other Federal agencies assisted in providing emergency employment during the second half of 1938. Thus, in October, Federal agencies operating programs through a transfer of Works Progress Administration funds provided employment to 90,713 persons. Other major Federal pro-

grams furnishing employment were the Civilian Conservation Corps, which gave work to about 328,000 persons in October; National Youth Administration Student Aid, which assisted 311,000 students, and National Youth Administration work projects, which assisted 220,000 persons; and the Public Works Administration (Federal and non-Federal projects), which provided employment to 123,000 persons.

Federal expenditures for the Works Progress Administration program amounted to \$1,965,000,000 during 1938. Over 85 percent of this sum went directly to project workers in the form of wages, which currently average about \$52.50 per month. Materials and other necessary project nonlabor costs amount to about \$8.50 per project worker, and administrative overhead

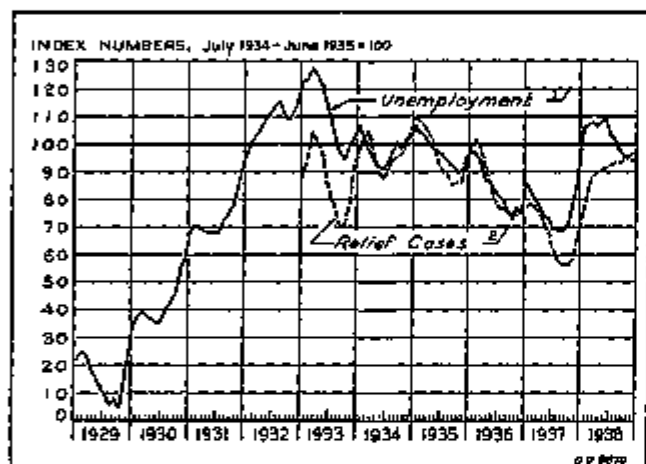


Figure 27.—Trend of Unemployment and Relief, Continental United States, 1929-38.

¹ Figures for unemployment are estimates made for the Committee on Economic Security by Robert R. Nathan and kept up to date by him.

² Figures are estimated not total number of families and single persons receiving general relief, and persons from relief rolls employed on projects operated under the Civil Works Administration and the Works Progress Administration and other Federal agencies, compiled by the Works Progress Administration. Data do not include recipients of emergency relief under the college student aid, rural rehabilitation, and transient programs; persons employed on Civilian Conservation Corps, National Youth Administration, and emergency drought projects; recipients of rural rehabilitation loans and subsistence grants made by the Resettlement Administration and by the Farm Security Administration; or persons aided under the public assistance program of the Social Security Board.

averages about \$2 per month per worker. The sponsors of Works Progress Administration projects met about 19 percent of total work project costs during 1938. Approximately 80 percent of sponsors' expenditures are for project materials and equipment.

General Relief.

States and localities have been responsible for the administration and financing of general relief since

December 1935, at which time final F. E. R. A. grants were determined. The general relief programs of the States and localities are intended primarily for unemployables who are not receiving aid under the public-assistance provisions of the Social Security Act. Some destitute employables who have not secured work under W. P. A. or other Federal agencies providing emergency work are also found on the general relief programs.

The number of cases receiving relief under general relief programs reached a low point of 1,269,000 in July 1937. With the increased needs arising from the coming of winter and the business decline in the latter part of 1937, this total rose to 1,648,000 in December. A high point for 1938 of 2,029,000 cases was reached in February and March. The decline to 1,682,000 cases in June may be traced in part to the large numbers of employable persons transferred to W. P. A. projects, which was made possible by the enactment, in March 1938, of a supplemental appropriation of \$250,000,000 to the W. P. A. The latest available figures indicate a total in November 1938 of 1,547,000 general relief cases, representing 4,818,000 persons, or 3.7 percent of the total population of the United States.

Obligations incurred for general relief for the year ended November 1938 (including the amount of general relief issued to cases and the administrative and non-relief costs of the general relief program) totaled \$556,321,000, of which amount \$297,275,000, or 53.4 percent, came from State funds and \$257,567,000, or 46.3 percent, came from local public funds. The remainder, \$1,479,000 or 0.3 percent, represents balances of Federal Emergency Relief Administration funds previously granted to the States. Total obligations incurred averaged \$54,000,000 per month during the first quarter of 1938, \$45,000,000 in the second quarter, and \$42,000,000 in the third quarter. This represents an increase over 1937 of 21 percent in the first quarter, and an increase of 20 percent in both the second and third quarters.

The average amount of general relief per case was \$24.29 in January 1938, as compared with the December 1937 peak of \$25.23. The low point for 1938 was \$21.93 in the month of May. The latest available figures indicate that the average amount of general relief per case was \$23.09 in October 1938. These averages for the country as a whole conceal the wide differences from State to State; thus, in September 1938, the State averages ranged from \$4.36 in Mississippi to \$32.94 in New York.

Finance

REACTION in business during the latter part of 1937 and the early part of 1938 brought official measures designed to promote the effective use of financial resources. Restrictive gold and reserve policies were abandoned and then reversed, and a program calling for increased expenditures, with further deficit financing, was announced. Regulations governing loans and investments by banks were liberalized. Circumstances beyond the immediate scope of official action brought an unprecedented flow of gold to the United States to further swell monetary resources, bank reserves, and bank deposits. A heavy balance of merchandise exports contributed to the gold inflow and to the continued strength of the dollar, which appreciated significantly in terms of sterling and French francs in the foreign exchange market. Security prices recovered substantially after a severe decline extending from August 1937 to April 1938; and in the latter part of the year there was an improvement in corporate earnings, which had dropped rapidly during the period of declining activity.

Banking and Credit

Largely as a result of the heavy gold imports beginning in September, the total credit resources of the country reached new high levels in 1938. Monetary gold stock exceeded \$14,500,000,000 at the end of the year, as compared with \$13,100,000,000 at the end of August and with \$12,760,000,000 at the end of 1937. (See fig. 28.) This enlargement of the credit base was reflected primarily in the continued rapid growth of bank reserves, accompanied by an increase in excess reserves to record figures. The total reserves of member banks rose to approximately \$9,000,000,000 at the middle of December 1938 (just before the Treasury financing), from \$7,000,000,000 at the beginning of the year; excess reserves were almost \$3,500,000,000 on the same date, as compared with \$700,000,000 in August 1937 and with \$1,200,000,000 at the end of 1937.

Changes in the gold and credit policies of the Federal monetary authorities constituted major influences upon the reserve position of banks which were superimposed upon the effect of new gold acquisitions from foreign and domestic sources. Subsequent to December 21, 1936, as a means of preventing increases in monetary gold stock from further expanding bank reserves, gold purchases by the Treasury had been made out of the proceeds of the sale of additional public-debt obligations; and, in pursuance of this policy, gold acquisitions had been placed in an inactive account in the Treasury. On February 14, 1938, it was announced

that, retroactive to January 1, 1938, gold acquisitions would be placed in the inactive account only to the extent that they exceeded \$100,000,000 in any quarter.

This action by the Treasury was followed on April 14 by the dewaterization of approximately \$1,400,000,000 of gold, representing the net accumulation in the inactive account since its establishment in December 1936. Dewaterization was accomplished through the

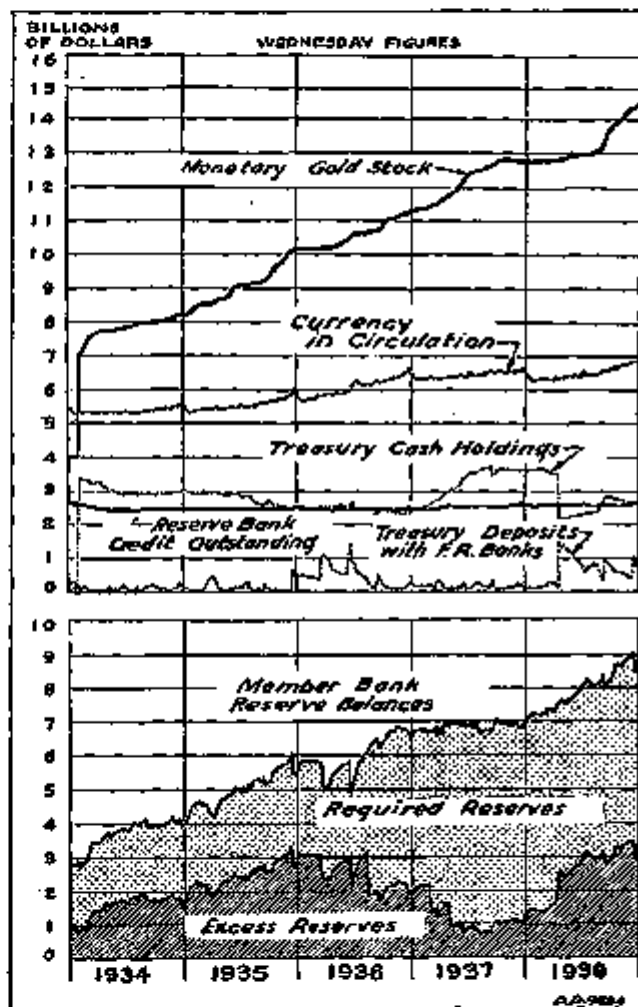


Figure 28.—Member Bank Reserves and Related Items, 1934-38 (Board of Governors of the Federal Reserve System).

deposit of gold certificates with the Federal Reserve banks, and the desired effect upon bank reserves was produced by drawing down the resulting Treasury deposits through the retirement of Treasury bills with cash.

The shift in the gold policy of the Treasury was supplemented by a reduction of approximately 13½ percent in the reserve requirements on all classes of deposits for all member banks, announced by the Board of

Governors of the Federal Reserve System on April 15. The effect of the order was to raise the excess reserves of member banks by about \$750,000,000. In June, as a means of promoting the utilization of idle reserves, significant revisions in the rules governing bank examination were announced. In addition to bringing about a uniformity in the treatment of loans and securities by the several Federal agencies engaged in the administration of bank examinations, the new procedures laid down the principles that, in making loans, banks should be encouraged to place emphasis upon intrinsic value rather than upon liquidity or quick maturity and that bank investments should be considered in the light of inherent soundness rather than on a basis of day-to-day market fluctuations.

The significant developments during 1938 in commercial banking were the increase in demand deposits

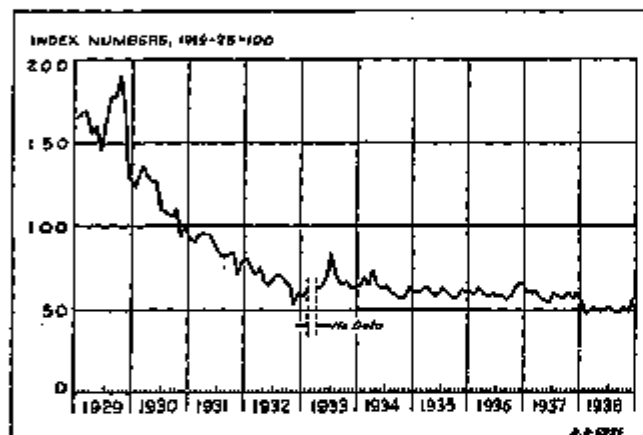


Figure 29.—Index of Annual Rate of Turn-Over of Demand Deposits, 161 Leading Cities, Adjusted for Seasonal Variations, 1929-38 (Federal Reserve Bank of New York).

NOTE.—Data are based upon the relation between debits to individual accounts and demand deposits of reporting member banks in 161 leading cities. Data for March 1938 are not available on account of the banking holiday.

and the decrease in loans. The growth in deposits, in which deficit financing by the Federal Government and imports of gold were principal influences, carried the total for reporting member banks above \$18,000,000,000, an aggregate in excess of the high levels of early 1937. At the same time, the fall in the rate of turnover of demand deposits below that of any recent year indicated the accumulation of idle funds in the hands of individuals and business concerns, just as the rise in excess reserves indicated the accumulation of idle funds at the disposition of the banking system. (See fig. 29.)

The fall in the volume of bank loans during the first half of 1938 and the absence of an increase during the second half were attributable in the first instance to the depressed condition of business and in the second instance to the failure of a demand for accommodation to appear, even after the recovery in business became evident, as well as during the year as a whole, to the retirement of outstanding loans with the proceeds of

security flotations. Commercial, industrial, and agricultural loans of reporting member banks, which stood at \$4,800,000,000 in October 1937, declined to \$3,800,000,000 at the end of 1938. (See fig. 31.) Other loans were also less at the year-end than at the close of the previous year. The investments of reporting member banks were increased during the year as the consequence of a net addition of more than \$800,000,000 to portfolios of direct and fully guaranteed Government obligations and of approximately \$350,000,000 to holdings of other securities.

Security Markets and Money Markets

The fall in stock prices, beginning in August 1937, was not arrested, except for minor rallies, until April 1938, coincidental with the desterilization of gold, the reduction in reserve requirements, and the change in

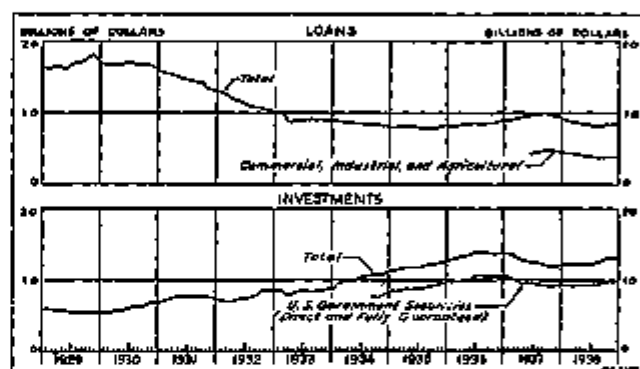


Figure 30.—Loans and Investments of Reporting Member Banks in 161 Leading Cities, 1929-38 (Board of Governors of the Federal Reserve System).

NOTE.—The monthly data in this chart are averages of the weekly figures. Due to changes in classification comparable data for "Commercial, industrial, and agricultural" loans prior to June 1937, and U. S. Government securities prior to September 1934, are not available.

budgetary policy by the Government. Representative averages indicated that the loss of value for all classes of shares during the 8-month period was approximately 40 percent. The decline in railroad stocks was considerably greater, and in public-utility stocks somewhat less, in proportion. (See fig. 31.) With industries leading the advance, share prices moved sharply upward in July, and further gains were made in August. A weak tendency in September at the time of the European crisis was followed by a sharp recovery. Prices tended to level off after the middle of October. The Standard Statistics average of 420 stocks stood at 92.6 (1926=100) in the final week of the year, compared with the 1938 low of 63.7 and the 1937 high of 132.4. The volume of trading in stocks, which had fallen to a low level during the first half of 1938, increased with the rise in quotations and remained at higher levels during the remainder of the year.

Corporate bond prices were moderately higher, on the average, at the end of 1938 than at the close of 1937. As in the case of share prices, the trend was downward

during the early months of the year until April, after which there was an irregular advance. These fluctuations were most marked, of course, in the lower-grade issues, quotations for which had fallen steeply and almost without interruption since early in 1937. (See fig. 32.) The prices of high-grade corporate issues moved within narrow limits during 1938, both on the decline and the subsequent advance. United States Treasury obligations showed a rising tendency throughout the year.

Publicly announced offerings of corporate securities for new capital in 1938, although much above the annual average for the period 1932-35, fell substantially below the level of 1936-37. (See fig. 33.) Flotations, exclusive of refunding issues, as reported by the Commercial and Financial Chronicle, were \$854,000,000, as compared with approximately \$1,200,000,000 in each of the

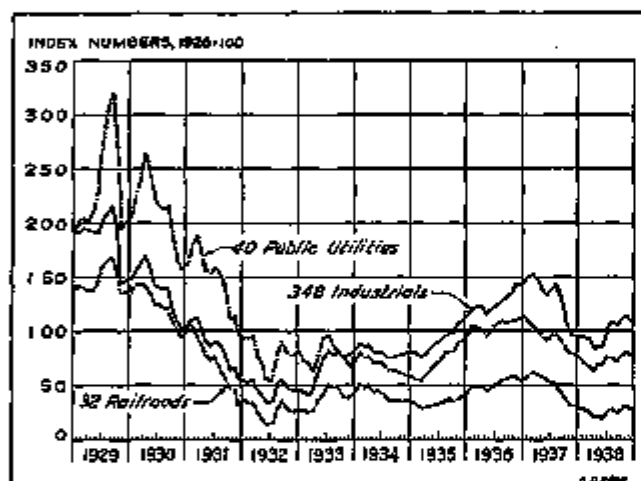


Figure 31.—Movement of Stock Prices by Major Groups, 1929-38 (Standard Statistics Company, Inc.).

preceding 2 years. The refunding of old issues accounted for flotations aggregating \$1,221,000,000 and raised the total of public offerings to more than \$2,000,000,000. As in other recent years, a number of issues were placed privately, in accordance with a growing tendency for major corporate loans to pass directly from issuer to purchaser—a method of financing which is encouraged both by the large volume of funds seeking investment and by the scarcity of security offerings by seasoned corporations.

Corporate earnings of the 158 companies included in the Standard Statistics quarterly series in 1938 were less than half as large in 1938 as in 1937 and were only slightly above the level of 1934. The profits of industrial and railroad companies showed especially sharp reductions as compared with the results of the preceding year, while public-utility earnings declined to a much smaller extent. The general fall in corporate profits, which began in the spring of 1937, carried earnings to their low point of the 1937-38 recession in the first half of 1938. Returns improved substantially in the final quarter. Dividend rates per share for 600

companies, as reported by Moody's Investors Service, fell from \$2.18 in December 1937 to \$1.39 in June 1938; the latter rate was maintained during the remaining months of the year.

The budgetary changes of the Government, involving large supplemental expenditures for relief and public works and the extension of the facilities of Federal lending agencies, necessitated the issuance of additional Treasury obligations during 1938 and a consequent increase in the Federal debt. Offerings for cash included \$800,000,000 of bonds and notes in September and \$700,000,000 in December. The gross Federal debt stood at \$39,400,000,000 at the end of the year, as compared with \$37,300,000,000 at the end of 1937. The rise in the interest-bearing debt, approximately \$2,200,000,000, consisted of additional publicly offered issues amounting to \$1,300,000,000 and special obligations issued to Government agencies and trust funds

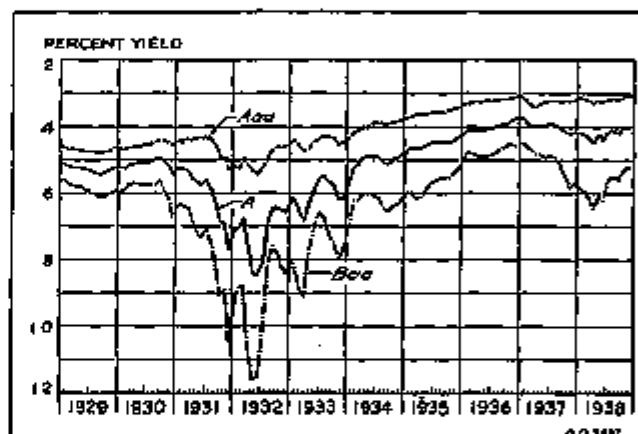


Figure 32.—Yield of Corporate Bonds by Ratings, 1929-38 (Moody's Investors Service).

NOTE.—In the rating classification followed by Moody's Investors Service, Aaa indicates bonds which are and may be expected to remain the most conservative type of investment. Such bonds will tend to fluctuate in price with fluctuations of the prevailing long-term interest rates. Bonds rated A have distinct investment qualities, but do not have the elements of strength which would necessarily prevent their intrinsic worth from being affected by some special development; while those rated Baa have definitely less of an investment and more of a speculative character. Each group includes 30 bonds.

amounting to \$900,000,000. Government-guaranteed obligations of Federal agencies were increased by \$350,000,000 in 1938. Interest rates on Treasury obligations issued during the year were exceptionally low, and both a lengthening of the maturity distribution of the debt and a more orderly distribution of maturities was achieved.

Foreign Exchange Markets

Pronounced weakness of the pound sterling against dollars after the early months of the year was the outstanding feature of the foreign exchange market during 1938. (See fig. 35.) In January and February, and until the third week in March, quotations for the pound in New York approximated \$5, the highest level since the Tripartite Declaration of September 1936. The Austrian crisis in March was accompanied by a break

in sterling, but the rate approached \$5 again during the latter half of April and the first week in May. With the exception of a brief period in June, when rumors of a reduction in the gold-buying price of the United States Treasury reappeared, the decline in the exchange value of the pound was almost continuous during the remainder of the year.

The resumption of the net flow of capital funds from European centers to the United States in August, after a lapse of 10 months, and the development to an acute stage of the Czechoslovak crisis in September accentuated the fall of the pound, which touched \$4.60 for a brief period on September 28. The passing of the immediate threat of a European war failed, however, to bring a reversal in trend, and the sterling-dollar rate fell to an average of \$4.66 during the week

francs sold at 2.63 cents, as compared with 2.77 cents during the last week in May and with 3.39 cents at the beginning of the year. The currencies of the Netherlands, Switzerland, and Belgium, all of which held generally firm throughout the year, were quoted against dollars at rates slightly below those prevailing at the end of 1937.

Gold and Capital Movements

As a result of record-breaking shipments during the last half of the year, the net amount of gold received from abroad by the United States in 1938 aggregated more than \$1,600,000,000. This inflow of gold, which accounted in large part for the notable expansion of the banking reserves of the country, reflected the heavy balance of merchandise exports, on the one hand, and

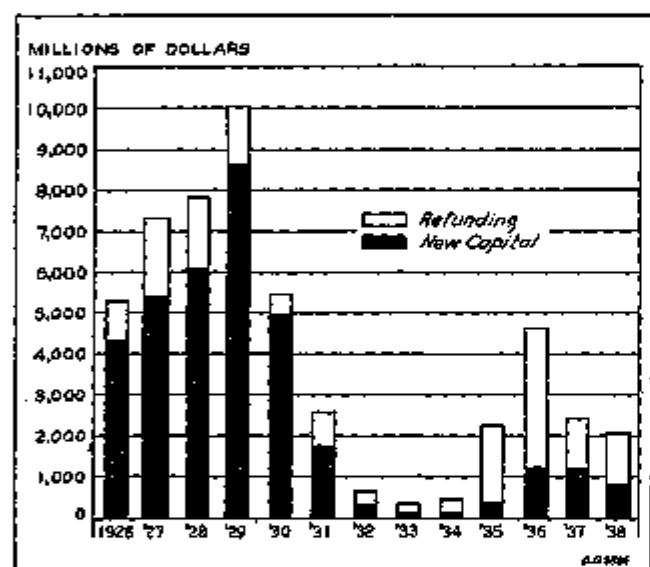


Figure 33.—Total Corporate Capital Fluctuations Publicly Announced, 1926-38 (Commercial and Financial Chronicle).

of November 26. After the close of the year, the pound received formidable support against speculative attack through the transfer of gold with a dollar value of approximately \$1,650,000,000 from the Bank of England to the Exchange Equalization Account.

The weakness of the French franc, which persisted even during the early part of the year when other principal European currencies were advancing against dollars and which became especially marked during the Austrian affair, culminated in a further depreciation of the currency in May. (See fig. 35.) The minimum rate was established at 179 francs to the pound sterling, equivalent to 2.79 cents (or 35.8 francs) to the dollar at the then existing dollar-pound cross rate. The decline in the franc-dollar rate during the remainder of the year, related primarily to the fall in the pound, was moderate and orderly. A decree of the French Government revalued the gold reserve of the Bank of France, as of November 12, at the equivalent of 2.653 cents per franc. At the end of December,

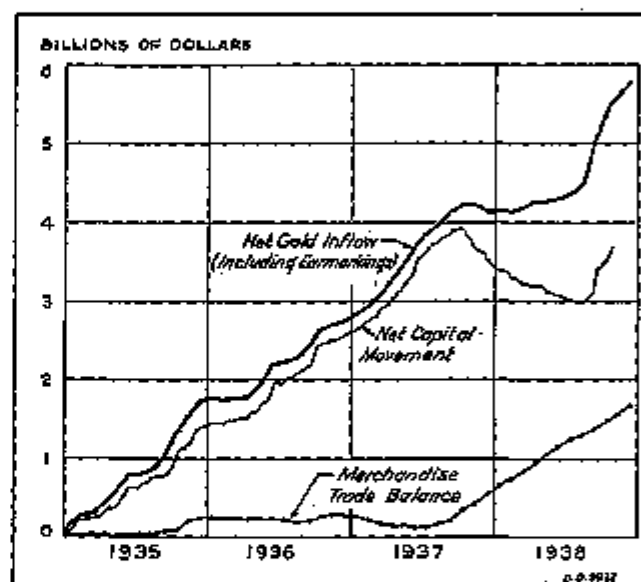


Figure 34.—Cumulative Net Movements of Gold and of Capital Between the United States and Foreign Countries, and Cumulative Excess of Merchandise Exports Over Imports Since January 1, 1935 (Net Gold Inflow, Board of Governors of the Federal Reserve System; Net Capital Movement, U. S. Treasury Department; and Merchandise Trade Balance, U. S. Department of Commerce).

NOTE.—Data for "Net Capital Movement" are plotted weekly; other data are plotted monthly. Statistics subsequent to October 26, 1938, for the former item were not available in time to include them in this chart.

a net inflow of capital funds, on the other. (See fig. 34.)

During the first half of the year, the continued liquidation of foreign dollar balances restricted the inward gold movement to modest proportions, in spite of an export trade balance which exceeded \$100,000,000 per month. Account being taken of reported earmarking operations, there were small net losses of gold in February and in May. Gold engagements in London and in Brussels for American account in March were the first reported acquisitions in Europe since September 1937.

The reversal in the prevailing movement of capital funds in August and the flight to the dollar in September under the threat of imminent war in Europe, coupled with commercial requirements for dollar exchange,

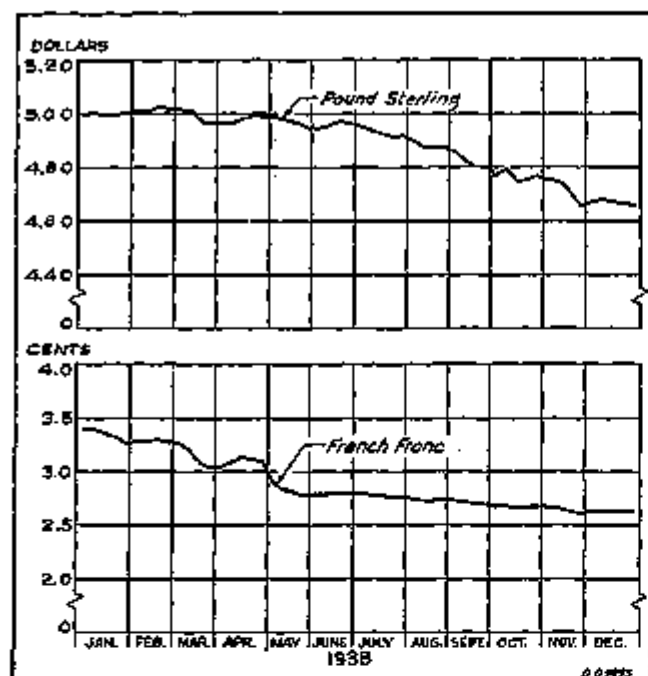


Figure 35.—Course of the Sterling and the French Franc Exchange in New York, by Weeks for 1938 (Board of Governors of the Federal Reserve System).

produced the spectacular gold imports of September and October. In these 2 months, gold valued at \$1,083,000,000 was received from abroad. Although statistics of capital movements during the fourth quarter of the year are not available, the shipment of \$418,000,000 of gold to this country during November and December, as well as the extraordinary receipts of \$562,000,000 in October, indicate that the inflow of capital funds during the 3-month period was substantial.

During 1938 as a whole, the net gain of gold from foreign sources (allowance made for reported earmarking operations) was approximately \$1,640,000,000, and net imports of silver accounted for an additional \$223,000,000. The sum of these balance-of-payments items, \$1,863,000,000, representing net payments to foreigners for gold and silver, was offset in part by receipts from foreigners of an estimated \$850,000,000 arising from trade in goods and services. The remainder, of approximately \$1,000,000,000, was the counterpart of a net inflow of capital which apparently reached substantial size before the end of the year, and probably, also, as in other recent years, of a large residual of unidentified transactions involving receipts of funds from foreigners.